Office of the Legislative Auditor

State of Montana

Report to the Legislature

May 1994

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1993

Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act of 1984 and OMB Circular A-128. It contains the auditor's report on Montana's Schedule of Federal Financial Assistance for the two fiscal years ended June 30, 1993, as well as Reports on Internal Controls and Compliance, a Schedule of Questioned Costs, and Federal Issues. The Montana Comprehensive Annual Financial Report for each of the two fiscal years ended June 30, 1992 and 1993, and our reports thereon have been separately issued.

Direct resolution of federal issues to:
Single Audit Coordinator
Office of Budget and Program Planning
Room 202, State Capitol
Helena, Montana 59620
Phone (406) 444-3616

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
PO Box 201705
Helena, MT 59620-1705
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STATE OF MONTANA

Office of the Legislative Auditor

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JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

May 1994

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the State of Montana for the two fiscal years ended June 30, 1993. This document contains the independent auditor's report on the State of Montana's Schedule of Federal Financial Assistance for the two fiscal years ended June 30, 1993. It also contains reports on the State of Montana's internal controls and compliance with federal and state laws and regulations. The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-128.

The review disclosed certain questioned costs and deficiencies, which are summarized in the Schedule of Questioned Costs on page 29 and the Federal Issues section of this document. All of the federal findings in this document were included in previously issued agency audit reports. Agency management has responded to the audit findings, and the responses are included in the report following each issue and recommendation. Unless satisfactorily implemented or no longer applicable, prior findings affecting federal programs are included in the Federal Issues section of this document. Generally, a prior audit finding is identified as such in the narrative of the finding.

We issued separate reports on the State of Montana's general purpose financial statements for fiscal years 1991-92 and 1992-93. These reports are included in the Montana Comprehensive Annual Financial Report issued under separate cover for each of the two fiscal years ended June 30, 1992 and 1993. The reports contain an unqualified opinion and are available upon request.

Respectfully submitted,

Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1993

Montana Single Audit Report

All financial-compliance audit staff were involved in the individual agency audits and statewide audits supporting this audit report. Staff involved in incorporating results from individual agency audits and statewide audits into this audit report include: Laurie Evans, Geri Hoffman, Glenn Jorgenson, D.J. Kimball, Maureen Leo, Lorry Parriman, and Vickie Rauser.

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STATE OF MONTANA

Office of the Legislative Auditor

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana for each of the two fiscal years ended June 30, 1992 and 1993, and have issued our reports thereon dated November 6, 1992, and November 5, 1993, respectively. These general purpose financial statements are the responsibility of the State of Montana management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements of the State of Montana taken as a whole. The accompanying schedule of federal financial assistance on pages 2 through 16 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 21, 1994

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	Department of Agriculture		
	Agricultural Research Service		
10.001	Agricultural Research-Basic and Applied Research	$ 539,094	$ 886,104
	Animal and Plant Health Inspection Service		
10.025	Plant and Animal Disease and Pest Control	296,137	224,144
10.028	Animal Damage Control	0	9,939
	Agricultural Stabilization and Conservation Service		
10.063	Agricultural Conservation Program	4,037	5,449
10.064	Forestry Incentives Program	2,035	493
	Agricultural Marketing Service		
10.156	Federal-State Marketing Improvement Program	9,631	1,854
10.162	Inspection Grading and Standardization	9,203	36,795
	Cooperative State Research Service		
10.200	Grants for Agricultural Research, Special Research Grants	881,780	1,201,876
10.202	Cooperative Forestry Research	370,856	418,934
10.203	Payments to Agricultural Experiment Stations Under Hatch Act	1,802,057	1,949,987
10.205	Payments to 1890 Land-Grant Colleges and Tuskegee University	107,607	114,834
10.206	Grants for Agricultural Research-Competitive Research Grants	73,351	152,407
10.207	Animal Health and Disease Research	177,291	177,253
10.215	Sustainable Agriculture Research and Education	91,557	123,401
	Economic Research Service		
10.250	Agricultural and Rural Economic Research	10,767	27,619
10.299	Other Miscellaneous Non-Major Grants	0	50,554
	Farmers Home Administration		
10.435	Agricultural Loan Mediation Program	41,911	5,044
	Food Safety and Inspection Service		
10.475	Food Safety and Inspection Service	312,197	304,965
10.477	Meat and Poultry Inspection	32,177	0
	Extension Service		
10.500	Cooperative Extension Service	2,836,214	3,266,686
	Food and Nutrition Service		
10.550	Food Distribution	394,288	434,732
10.551	Food Stamps	50,531,306	53,846,165
10.553	School Breakfast Program	1,275,029	1,505,544
10.555	National School Lunch Program	14,097,084	14,195,025
10.556	Special Milk Program for Children	61,804	62,475
10.557	Special Supplemental Food Program for Women, Infants, and Children	8,511,598	9,803,264
10.558	Child and Adult Care Food Program	5,918,215	6,520,562
10.559	Summer Food Service Program for Children	300,324	302,359
10.560	State Administrative Expenses for Child Nutrition	283,010	250,759
10.561	State Administrative Matching Grants for Food Stamp Program	5,358,308	5,660,452
10.564	Nutrition Education and Training Program	65,261	55,678
10.567	Food Distribution Programs on Indian Reservations	3,643,181	3,921,216
10.568	Temporary Emergency Food Assistance (Administrative Costs)	157,861	167,926
10.569	Temporary Emergency Food Assistance (Food Commodities)	574,995	588,336
10.570	Nutrition Program for the Elderly (Commodities)	1,138,095	1,220,559
10.571	Food Commodities for Soup Kitchens	165,815	46,374
	Foreign Agricultural Service		
10.601	Market Promotion Program	5,000	10,000

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	Forest Service		
10.652	Forestry Research	$ 1,065,340	$ 1,320,105
10.664	Cooperative Forestry Assistance	1,014,833	1,067,986
10.665	Schools and Roads-Grants to States	9,155,086	11,892,530
10.699	Other Miscellaneous Non-Major Grants	0	81
	Soil Conservation Service		
10.901	Resource Conservation and Development	127,298	146,539
10.902	Soil and Water Conservation	0	8,325
10.903	Soil Survey	10,018	11,524
	Office of International Cooperation and Development		
10.961	International Agricultural Research Program	0	350,543
	Miscellaneous		
10.999	Other Miscellaneous Non-Major Grants	443,401	244,392
	Total for Agency	$111,895,052	$122,591,789
	Department of Commerce		
	Economic Development Administration		
11.303	Economic Development-Technical Assistance	$ 101,039	$ 113,804
11.305	Economic Development-State and Local Economic Development Planning	33,039	86,961
11.307	Special Economic Development and Adjustment Assistance Program	3,790	11,797
	National Telecommunications and Information Administration		
11.550	Public Telecommunications Facilities-Construction and Planning	317,721	74,811
	National Institute for Standards and Technology		
11.613	State Technology Extension Program	24,932	(2,073)
11.999	Other Miscellaneous Non-Major Grants	5,000	5,712
	Total for Agency	$ 485,521	$ 291,012
	Department of Defense		
	Defense Logistics Agency		
12.002	Procurement Technical Assistance for Business Firms	$ 117,824	$ 65,646
	Department of the Army, Office of the Chief of Engineers		
12.110	Planning Assistance to States	8,988	7,378
12.199	Other Miscellaneous Non-Major Grants	0	207,813
	Department of the Navy, Office of the Chief of Naval Research		
12.300	Basic and Applied Scientific Research	0	131,349
12.999	Other Miscellaneous Non-Major Grants	545,261	340,290
	Total for Agency	$ 672,073	$ 752,476
	Department of Housing and Urban Development		
	Housing-Federal Housing Commissioner		
14.156	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	$ 11,816,861	$ 13,056,544
14.199	Other Miscellaneous Non-Major Grants	8,250	2,901

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	Community Planning and Development		
14.228	Community Development Block Grant/State's Program	$ 4,854,320	$ 6,165,462
	Office of Fair Housing and Equal Opportunity		
14.401	Fair Housing Assistance Program-State and Local	49,509	106,287
	Miscellaneous		
14.999	Other Miscellaneous Non-Major Grants	66,507	89,702
	Total for Agency	$ 16,795,447	$ 19,420,896
Department of the Interior			
	Bureau of Indian Affairs		
15.114	Indian Education-Higher Education Grant Program	$ 0	$ 67,991
15.130	Indian Education-Assistance to Schools	(30,654)	711
15.142	Self Determination Grants-Indian Tribal Governments	0	3,597
15.143	Training and Technical Assistance-Indian Tribal Governments	162,269	82,268
15.145	Indian Grants-Economic Development (Indian Grant Program)	0	2,038
15.199	Other Miscellaneous Non-Major Grants	35,234	23,883
	Bureau of Land Management		
15.219	Wildlife Habitat Management Technical Assistance	46,117	35,681
15.221	Cooperative Agreements for Research in Public Lands Management	322,526	279,449
15.999	Mineral Leasing and other Department of Interior Programs (See note 2)	21,762,738	23,285,690
	Office of Surface Mining Reclamation and Enforcement		
15.250	Regulation of Surface Coal Mining and Effects of Underground Coal Mining	808,102	940,139
15.252	Abandoned Mine Land Reclamation (AMLR) Program	2,233,524	2,583,868
15.299	Other Miscellaneous Non-Major Grants	314,931	318,584
	Bureau of Mines		
15.308	Grants for Mining and Mineral Resources and Research Institutes	178,512	188,626
	Bureau of Reclamation		
15.501	Distribution System Loans	1,280,904	1,473,860
15.502	Irrigation Systems Rehabilitation and Betterment	85,598	64,666
15.503	Small Reclamation Projects	429,638	1,138,816
15.599	Other Miscellaneous Non-Major Grants	0	814
	U.S. Fish and Wildlife Service		
15.604	Fishery Research-Information	2,053	78,729
15.605	Sport Fish Restoration	3,722,100	3,652,048
15.606	Migratory Bird Banding and Data Analysis	41	16,755
15.607	Environmental Contaminant	0	21,281
15.608	Fish and Wildlife Management Assistance	70,789	50,683
15.610	Wildlife Research Information	57,540	39,972
15.611	Wildlife Restoration	3,091,381	3,147,065
15.612	Endangered Species Conservation	110,766	141,923
15.699	Other Miscellaneous Non-Major Grants	305,418	367,694
	Geological Survey		
15.805	Assistance to State Water Resources Research Institutes	112,784	146,312
15.806	National Water Resources Research Program	971	0
15.808	Geological Survey-Research and Data Acquisition	6,027	45,814
15.899	Other Miscellaneous Non-Major Grants	90,006	108,914

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	National Park Service		
15.904	Historic Preservation Fund Grants-In-Aid	$ 440,598	$ 477,302
15.915	Technical Preservation Services	1,064	69,993
15.916	Outdoor Recreation-Acquisition, Development and Planning	202,429	69,517
	Total for Agency	$ 35,843,406	$ 38,924,683
	Department of Justice		
	Drug Enforcement Administration		
16.001	Law Enforcement Assist.-Narcotics and Dangerous Drugs-Laboratory Analysis	$ 0	$ 59,625
	Office of Juvenile Justice and Delinquency Prevention		
16.540	Juvenile Justice and Delinquency Prevention-Allocation to States	307,898	333,626
16.543	Missing Children's Assistance	415	57,390
	Bureau of Justice Statistics		
16.550	Criminal Justice Statistics Development	148,953	283,298
	Bureau of Justice Assistance		
16.575	Crime Victim Assistance	327,464	363,000
16.576	Crime Victim Compensation	0	118,000
16.579	Drug Control and System Improvement-Formula Grant	2,149,429	2,254,101
16.582	Crime Victim Assistance/Discretionary Grants	97,500	70,000
	Bureau of Prisons		
16.602	Corrections-Research and Evaluation and Policy Formulation	0	97,364
16.603	Corrections-Technical Assistance/Clearinghouse	57,406	0
	Miscellaneous		
16.999	Other Miscellaneous Non-Major Grants	145,696	21,915
	Total for Agency	$ 3,234,761	$ 3,658,319
	Department of Labor		
	Bureau of Labor Statistics		
17.002	Labor Force Statistics	$ 660,180	$ 613,779
	Employment and Training Administration		
17.203	Labor Certification for Alien Workers	62,008	146,126
17.207	Employment Service	6,619,987	6,422,772
17.225	Unemployment Insurance	21,075,091	32,308,113
17.245	Trade Adjustment Assistance-Workers	0	223,100
17.246	Employment and Training Assistance-Dislocated Workers	2,062,769	1,583,261
17.248	Employment and Training Research and Development Projects	41,559	40,000
17.250	Job Training Partnership Act	9,888,134	9,831,104
	Occupational Safety and Health Administration		
17.500	Occupational Safety and Health	165,618	202,753
	Mine Safety and Health Administration		
17.600	Mine Health and Safety Grants	57,102	60,548

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	Office of the Assistant Secretary for Veterans Employment and Training		
17.801	Disabled Veterans Outreach Program	$ 325,000	$ 273,940
17.802	Veterans Employment Program	46,876	50,516
17.804	Local Veterans Employment Representative Program	693,000	720,628
	Miscellaneous		
17.999	Other Miscellaneous Non-Major Grants	112,249	0
	Total for Agency	$ 41,809,573	$ 52,476,640
	Department of State		
	Bureau of Oceans and International Environmental and Scientific Affairs		
19.204	Fishermen's Guaranty Fund	$ 67,116	$ 17,315
	Miscellaneous		
19.999	Other Miscellaneous Non-Major Grants	58,887	87,174
	Total for Agency	$ 126,003	$ 104,489
	Department of Transportation		
	United States Coast Guard		
20.005	Boating Safety Financial Assistance	$ 229,749	$ 232,118
	Federal Aviation Administration		
20.106	Airport Improvement Program	296,527	68,685
	Federal Highway Administration		
20.205	Highway Planning and Construction	137,098,016	142,119,175
20.215	Highway Training and Education	0	38,413
20.217	Motor Carrier Safety	80,499	0
20.218	Motor Carrier Safety Assistance Program	595,512	546,974
20.299	Other Miscellaneous Non-Major Grants	0	4,683
	Federal Railroad Administration		
20.308	Local Rail Freight Assistance	39,432	24,560
	Federal Transit Administration		
20.500	Federal Transit Capital Improvement Grants	0	492,589
20.505	Federal Transit Technical Studies Grants	100,539	165,982
20.509	Public Transportation for Nonurbanized Areas	536,939	679,128
20.512	Federal Transit Technical Assistance	41,830	0
20.513	Capital Assistance Program for Elderly Persons	192,781	252,223
20.514	Transit Planning and Research	0	24,436
	National Highway Traffic Safety Administration		
20.600	State and Community Highway Safety	1,036,344	1,046,490
	Research and Special Programs Administration		
20.700	Pipeline Safety	24,680	26,446
	Total for Agency	$140,272,848	$145,721,902
	Equal Employment Opportunity Commission		
30.002	Employment Discrimination-State and Local Fair Employment Practices	$ 129,466	$ 77,001
	Total for Agency	$ 129,466	$ 77,001

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	General Services Administration		
39.003	Donation of Federal Surplus Personal Property (See note 1)	$ 3,491,685	$ 3,617,602
	Total for Agency	$ 3,491,685	$ 3,617,602
	National Aeronautics and Space Administration		
43.001	Aerospace Education Services Program	$ 258,697	$ 453,428
43.002	Technology Utilization	397,306	632,837
	Total for Agency	$ 656,003	$ 1,086,265
	National Foundation on the Arts and the Humanities		
	National Endowment for the Arts		
45.003	Promotion of the Arts-Arts in Education	$ 38,821	$ 83,268
45.004	Promotion of the Arts-Literature	2,047	2,832
45.006	Promotion of the Arts-Media Arts: Films/Radio/Television	4,232	0
45.007	Promotion of the Arts-State and Regional Programs	457,833	492,068
45.009	Promotion of the Arts-Visual Arts	8,258	8,438
45.010	Promotion of the Arts-Expansion Arts	5,375	34,625
45.015	Promotion of the Arts-Folk Arts	26,000	5,000
45.023	Promotion of the Arts-Local Programs	38,501	41,983
45.099	Other Miscellaneous Non-Major Grants	2,510	0
	National Endowment for the Humanities		
45.104	Promotion of the Humanities-Humanities Projects in Media	6,468	3,936
45.129	Promotion of the Humanities-State Programs	21,989	37,992
45.199	Other Miscellaneous Non-Major Grants	(265)	5,600
	Institute of Museum Services		
45.301	Institute of Museum Services	23,198	30,104
	Total for Agency	$ 634,967	$ 745,846
	National Science Foundation		
47.009	Graduate Research Fellowships	$ 42,603	$ 33,173
47.041	Engineering Grants	4,522	60,435
47.049	Mathematical and Physical Sciences	917,621	3,003,713
47.050	Geosciences	192,771	111,263
47.051	Biological, Behavioral, and Social Sciences	386,771	386,012
47.053	Scientific, Technological, and International Affairs	64,949	142,740
47.066	Teacher Preparation and Enhancement	435,512	319,703
47.067	Materials Development and Informal Science Education	116,671	206,445
47.068	Research, Studies, and Program Assessment	69,977	53,698
47.069	Research Initiation and Improvement	3,353,513	1,677,783
47.070	Computer and Information Science and Engineering	33,269	66,675
47.071	Undergraduate Science, Mathematics, and Engineering Education	9,275	132,219
47.072	Young Scholars	41,114	100,095
47.073	Science and Technology Center	913,006	1,048,996
47.074	Biological Sciences	452,947	503,677
47.075	Social, Behavioral and Economic Sciences	12,487	23,111
47.076	Education and Human Resources	1,214	14,049
47.999	Other Miscellaneous Non-Major Grants	348,691	47,407
	Total for Agency	$ 7,396,913	$ 7,931,194

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	Small Business Administration		
59.005	Business Development Assistance to Small Business	$ 6,427	$ 5,991
59.037	Small Business Development Center	253,188	308,940
59.045	Natural Resource Development	12,250	80,611
59.099	Other Miscellaneous Non-Major Grants	49,970	31,152
	Total for Agency	$ 321,835	$ 426,694
	Tennessee Valley Authority		
62.001	National Fertilizer and Environmental Research Center	$ 4,876	$ 14,091
62.005	Tennessee Valley Region-Water and Land Resources	16,170	27,272
	Total for Agency	$ 21,046	$ 41,363
	Department of Veterans Affairs		
	Veterans Health Services and Research Administration		
64.014	Veterans State Domiciliary Care	$ 131,545	$ 130,186
64.015	Veterans State Nursing Home Care	717,129	838,928
	Veterans Benefits Administration		
64.109	Veterans Compensation for Service-Connected Disability	148,298	143,367
64.124	All-Volunteer Force Educational Assistance	281	0
64.199	Other Miscellaneous Non-Major Grants	69,983	67,201
	National Cemetery System		
64.203	State Cemetery Grants	16,120	11,210
64.999	Other Miscellaneous Non-Major Grants	0	633
	Total for Agency	$ 1,083,356	$ 1,191,525
	Environmental Protection Agency		
	Office of Air and Radiation		
66.001	Air Pollution Control Program Support	$ 1,069,887	$ 1,103,187
66.032	State Indoor Radon Grants	40,344	32,217
66.099	Other Miscellaneous Non-Major Grants	1,048	(11,167)
	Office of Water		
66.419	Water Pollution Control-State and Interstate Program Support	998,424	897,489
66.432	State Public Water System Supervision	529,582	630,357
66.435	Water Pollution Control-Lake Restoration Cooperative Agreements	47,207	71,446
66.438	Construction Management Assistance	327,542	310,854
66.454	Water Quality Management Planning	121,859	97,934
66.458	Capitalization Grants for State Revolving Funds	5,531,625	11,298,594
66.460	Nonpoint Source Implementation Grants	0	574,542
66.461	Wetlands Protection-State Development Grants	1,849	66,889
66.463	National Pollutant Discharge Elimination System Related State Program Grants	0	26,474
66.499	Other Miscellaneous Non-Major Grants	637,948	144,846
	Office of Research and Development		
66.500	Environmental Protection-Consolidated Research	705,939	565,106
66.501	Air Pollution Control Research	0	65,494
66.502	Pesticides Control Research	104,886	105,653
66.505	Water Pollution Control-Research, Development, and Demonstration	38,611	73,008

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
66.506	Safe Drinking Water Research and Demonstration	$ 168,696	$ 182,154
66.599	Other Miscellaneous Non-Major Grants	24,880	64,962
	Office of Pollution Prevention and Toxics		
66.700	Consolidated Pesticide Compliance Monitoring and Cooperative Agreements	461,580	500,299
	Office of Solid Waste and Emergency Response		
66.801	Hazardous Waste Management State Program Support	556,780	591,556
66.802	Hazardous Substance Response Trust Fund	1,755,426	1,213,657
66.804	State Underground Storage Tanks Program	161,897	314,268
66.805	Underground Storage Tank Trust Fund Program	578,364	445,580
66.809	Core Program Cooperative Agreements	175,725	53,218
66.899	Other Miscellaneous Non-Major Grants	0	289,894
	Office of Prevention, Pesticides and Toxic Substances		
66.900	Pollution Prevention Grants Program	0	26,768
66.925	State/EPA Data Management Financial Assistance Program	0	24,136
66.950	Environmental Education and Training Program	18,065	22,312
	Miscellaneous		
66.999	Other Miscellaneous Non-Major Grants	30,666	33,312
	Total for Agency	$ 14,088,830	$ 19,815,039
Action			
72.003	Volunteers in Service to America	$ 6,493	$ 2,089
	Total for Agency	$ 6,493	$ 2,089
Department of Energy			
81.004	University-Laboratory Cooperative Program	$ 76,255	$ 45,478
81.036	Energy-Related Inventions	7,624	(124)
81.041	State Energy Conservation	539,872	657,943
81.042	Weatherization Assistance for Low-Income Persons	2,311,728	1,882,084
81.049	Basic Energy Sciences, University and Science Education	177,894	260,534
81.050	Energy Extension Service	34,240	41,245
81.052	Energy Conservation for Institutional Buildings	139,146	280,650
81.077	University Research Instrumentation	80,414	22,668
81.079	Regional Biomass Energy Programs	82,164	174,210
81.080	Domestic and International Energy Policy Development	2,769	4,753
81.086	Conservation Research and Development	0	60,536
81.087	Renewable Energy Research and Development	109,868	147,869
81.091	Socioeconomic and Demographic Research, Data and Other Information	96,895	0
81.099	Minority Math/Science Leadership Development Recognition	0	67,165
81.999	Other Miscellaneous Non-Major Grants	3,625,456	3,731,489
	Total for Agency	$ 7,284,325	$ 7,376,500
United States Information Agency			
82.002	Educational Exchange-University Lectures (Professors) and Research Scholars	$ 0	$ 17,454
	Total for Agency	$ 0	$ 17,454

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	Federal Emergency Management Agency		
	United States Fire Administration		
83.008	Community-Based Anti-Arson Program	$ 10,000	$ 0
	State and Local Programs and Support		
83.503	Civil Defense-State and Local Emergency Management Assistance	593,419	560,757
83.504	Other State and Local Direction, Control and Warning	4,075	63,806
83.505	State Disaster Preparedness Grants	51,519	46,925
83.509	Facility Survey, Engineering and Development	61,919	62,251
83.512	State and Local Emergency Operating Centers	0	10,715
83.513	State and Local Warning and Communication Systems	125	0
83.514	Population Protection Planning	81,770	88,533
83.521	Earthquake Hazards Reduction Grants	43,001	102,153
83.522	Radiological Defense	111,612	102,229
83.599	Other Miscellaneous Non-Major Grants	190,180	209,308
	Total for Agency	$ 1,147,620	$ 1,246,677
	Department of Education		
84.002	Adult Education-State-Administered Basic Grant Program	$ 742,168	$ 888,697
84.003	Bilingual Education	361,364	236,268
84.004	Desegregation Assistance, Civil Rights Training, and Advisory Services	213,751	213,338
84.007	Supplemental Educational Opportunity Grants	910,365	612,113
84.009	Education of Handicapped Children in State Operated or Supported Schools	209,788	314,328
84.010	Chapter 1 Programs-Local Educational Agencies	14,433,995	15,651,133
84.011	Migrant Education-Basic State Formula Grant Program	225,021	257,307
84.012	Educationally Deprived Children-State Administration	370,375	383,761
84.013	Chapter 1 Program for Neglected and Delinquent Children	135,177	159,929
84.023	Special Education-Innovation and Development	119,458	85,802
84.024	Early Education for Children with Disabilities	547,543	642,493
84.025	Services for Children with Deaf-Blindness	72,782	76,605
84.027	Special Education-State Grants	5,450,057	6,352,702
84.029	Special Education Personnel Development and Parent Training	401,471	377,618
84.031	Higher Education-Institutional Aid	1,236	2,750
84.032	Guaranteed Student Loans	74,399,829	78,047,418
84.033	College Work-Study Program	2,102,707	2,410,398
84.034	Public Library Services	415,904	458,452
84.035	Interlibrary Cooperation and Resource Sharing	66,334	120,673
84.036	Library Education and Human Resource Development	7,601	0
84.037	National Defense/National Direct/Perkins Loan Cancellations	935,816	1,091,436
84.038	Perkins Loan Program-Federal Capital Contributions	19,110,730	19,813,799
84.042	Student Support Services	640,738	793,126
84.044	Talent Search	338,666	363,749
84.047	Upward Bound	444,124	664,082
84.048	Vocational Education-Basic Grants to States	4,149,848	4,362,668
84.049	Vocational Education-Consumer and Homemaking Education	180,500	162,505
84.053	Vocational Education-State Councils	148,779	151,613
84.055	Higher Education-Cooperative Education	46,571	120,971
84.061	Indian Education-Special Programs and Projects	82,327	202,878
84.063	Pell Grant Program	19,756,710	20,456,150
84.064	Higher Education-Veterans Education Outreach Program	5,572	4,533
84.066	Educational Opportunity Centers	244,404	368,664
84.069	Grants to States for State Student Incentives	234,453	208,481
84.073	National Diffusion Network	75,524	105,020
84.078	Postsecondary Education Programs for Persons with Disabilities	120,057	99,543
84.087	Indian Education-Fellowships for Indian Students	14,846	26,165
84.091	Improving Access to Research Library Resources	0	58,528

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
84.094	Patricia Roberts Harris Fellowships	$ 406,994	$ 169,075
84.097	Law School Clinical Experience Program	87,019	46,324
84.099	Bilingual Vocational Instructor Training	0	10,000
84.116	Fund for the Improvement of Postsecondary Education	53,818	52,464
84.117	Educational Research and Development	10,780	37,584
84.120	Minority Science Improvement	0	89,964
84.123	Law-Related Education	0	42,194
84.126	Rehabilitation Services-Basic Support	6,655,803	6,335,642
84.128	Rehabilitation Services-Service Projects	385,850	688,599
84.129	Rehabilitation Training	21,208	14,562
84.133	National Institute on Disability and Rehabilitation Research	610,976	428,116
84.144	Migrant Education--Coordination Program	0	6,520
84.151	Federal, State, and Local Partnerships for Educational Improvement	2,201,825	2,088,440
84.154	Public Library Construction and Technology Enhancement	159,140	18,171
84.162	Emergency Immigrant Education	0	5,797
84.164	Eisenhower Mathematics and Science Education State Grants	986,446	1,205,621
84.167	Library Literacy	0	9,482
84.169	Independent Living Services	198,833	216,189
84.170	Jacob K. Javits Fellowships	27,697	29,944
84.173	Special Education-Preschool Grants	1,319,264	1,343,008
84.174	Vocational Education-Community Based Organizations	54,917	52,733
84.176	Douglas Teacher Scholarships	50,000	44,918
84.177	Rehabilitation Services-Independent Living Services for Older Blind Individuals	197,252	210,755
84.181	Infants and Toddlers with Disabilities	1,064,576	1,527,785
84.184	Drug-Free Schools and Communities - National Programs	111,975	0
84.185	Robert C. Byrd Honors Scholarships	40,246	41,840
84.186	Drug-Free Schools and Communities-State Grants	2,460,684	2,445,880
84.187	Supported Employment Services for Individuals with Severe Handicaps	308,914	275,623
84.192	Adult Education for the Homeless	92,457	44,538
84.196	Education for Homeless Children and Youth-State and Local Activities	52,192	53,510
84.197	College Library Technology	266,359	49,843
84.207	Drug-Free Schools and Communities-School Personnel Training	0	134,092
84.213	Even Start-State Educational Agencies	0	222,804
84.214	Even Start - Migrant Education	0	27,424
84.216	Capital Expenses	19,874	23,466
84.217	Ronald E. McNair Post-Baccalaureate Achievement	0	39,780
84.218	State Program Improvement Grants	52,298	184,154
84.219	Student Literacy Corps	41,789	0
84.223	English Literacy Program	(2,941)	0
84.224	State Grants for Technology-Related Assistance to Individuals with Disabilities	88,681	544,478
84.242	National Science Scholars	0	5,500
84.243	Tech-Prep Education	188,295	224,181
84.254	State Literacy Resource Centers	0	274
84.999	Other Miscellaneous Non-Major Grants	217,074	296,289
	Total for Agency	$166,146,886	$175,633,259
	Architectural and Transportation Barriers Compliance Board		
88.999	Other Miscellaneous Non-Major Grants	$ 17,736	$ 0
	Total for Agency	$ 17,736	$ 0

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
	Department of Health and Human Services		
	Office of Secretary		
93.039	Child Care Improvement Grants	$ 2,119,170	$ 0
	Public Health Service-I		
93.103	Food and Drug Administration-Research	3,720	3,976
93.110	Maternal and Child Health Federal Consolidated Programs	(821)	33,253
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	563	55,956
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	805,212	526,566
93.125	Mental Health Planning and Demonstration Projects	221,225	170,698
93.130	Primary Care Services-Resource Coordination and Development Agreements	30,780	196,590
93.150	Projects for Assistance in Transition from Homelessness	299,999	300,000
93.155	Rural Health Research Centers	7,256	26,945
93.159	Health Care Services in the Home	76,533	5,710
93.160	Minority AIDS and Related Risk Factors Education/Prevention Grants	0	12,023
93.170	Community Youth Activity Demonstration Grants	879,578	54,678
93.171	Community Youth Activity Program Block Grants	92,090	45,488
93.179	State Data Collection--Uniform Alcohol and Drug Abuse Data	0	143,333
93.184	Disabilities Prevention	11,129	138,072
93.190	Model Education Projects for Health Professions	186,410	4,572
93.194	Community Partnership Study Demonstration Grant	40,418	63,327
93.199	HIV Home and Community-Based Health Services	403	4,851
93.217	Family Planning-Services	855,236	882,792
93.226	Health Services Research and Development Grants	69,587	0
93.242	Mental Health Research Grants	87,309	82,692
93.244	Mental Health Clinical or Service Related Training Grants	0	69,768
93.268	Childhood Immunization Grants	228,853	396,466
93.273	Alcohol Research Programs	78,579	43,596
93.283	Centers for Disease Control-Investigations and Technical Assistance	141,973	155,479
93.337	Biomedical Research Support	6,416	132,076
93.342	Health Professions Student Loans/Loans for Disadvantaged Students	0	30,201
93.358	Professional Nurse Traineeships	13,757	14,798
93.359	Nurse Training Improvement-Special Projects	0	246,469
93.364	Nursing Student Loans	1,058,793	1,150,266
93.371	Biomedical Research Technology	0	113,455
93.375	Minority Biomedical Research Support	364,858	303,892
93.390	Academic Research Enhancement Award	10,080	70,281
93.395	Cancer Treatment Research	0	3,691
93.397	Cancer Centers Support	9,724	0
93.399	Cancer Control	0	13,758
93.499	Other Miscellaneous Non-Major Grants	0	54,310
	Administration for Children and Families		
93.560	Family Support Payments to States-Assistance Payments	33,696,255	40,904,949
93.561	Job Opportunities and Basic Skills Training	1,789,864	2,454,145
93.563	Child Support Enforcement	3,613,030	5,693,015
93.566	Refugee and Entrant Assistance-State Administered Programs	393,095	302,407
93.568	Low-Income Home Energy Assistance	6,582,466	8,165,029
93.569	Community Services Block Grant	1,604,043	1,888,158
93.572	Emergency Community Services for the Homeless	60,191	103,722
93.575	Payments to States for Child Care Assistance	1,194,995	2,887,511
93.600	Head Start	14,583	6,689
93.614	Child Development Associate Scholarships	9,800	3,933
93.630	Developmental Disabilities-Basic Support and Advocacy Grants	387,248	330,166
93.632	Developmental Disabilities-University Affiliated Facilities	281,784	299,318
93.633	Special Programs for the Aging-Title III, Part B-Grants	1,519,751	1,691,605
93.635	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,243,493	2,409,774

STATE OF MONTANA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE BY FEDERAL AGENCY AND PROGRAM
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

CFDA#	FEDERAL ASSISTANCE PROGRAM BY FEDERAL AGENCY	1991-92 ASSISTANCE AMOUNT	1992-93 ASSISTANCE AMOUNT
93.643	Children's Justice Grants to States	$ 35,327	$ 91,386
93.645	Child Welfare Services-State Grants	1,402,140	1,105,765
93.648	Child Welfare Services Training Grants	86,630	19,599
93.652	Adoption Opportunities	92,225	30,403
93.658	Foster Care-Title IV-E	6,265,135	6,343,731
93.667	Social Services Block Grant	9,894,588	9,523,075
93.668	Special Programs for the Aging-Title IV-Training, Research and Programs	201,024	458,376
93.669	Child Abuse and Neglect State Grants	125,985	354,846
93.671	Family Violence Prevention and Services	50,000	61,541
93.672	Child Abuse and Neglect State Prevention Grants	3,934	7,715
93.673	Grants to States for Planning and Development of Dependent Care Programs	72,143	41,962
93.674	Independent Living	177,307	208,274
93.699	Other Miscellaneous Non-Major Grants	65,124	1,348
	Health Care Financing Administration		
93.775	State Medicaid Fraud Control Units	0	28,504
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,699,843	1,359,576
93.778	Medical Assistance Program	194,193,981	238,080,427
93.779	Health Care Financing Research, Demonstrations, and Evaluations	5,370	66,939
	Social Security Administration		
93.802	Social Security-Disability Insurance	2,958,105	3,055,216
93.807	Supplemental Security Income	25,745	25,096
93.812	Social Security-Research and Demonstration	103,886	114,984
	Public Health Service-II		
93.837	Heart and Vascular Diseases Research	0	8,623
93.838	Lung Diseases Research	0	41,045
93.854	Biological Basis Research in the Neurosciences	60,936	64,476
93.855	Allergy and Immunology Transplantation Research	370,153	327,066
93.856	Microbiology and Infectious Diseases Research	218,947	570,579
93.867	Vision Research	162,269	194,237
93.871	Strabismus, Amblyopia and Visual Processing	11,400	(293)
93.880	Minority Access to Research Careers	107,538	113,375
93.902	Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	279,765	180,692
93.905	Indian Health Service Research	33,271	0
93.913	Grants to States for Operations of Offices of Rural Health	32,943	68,508
93.917	HIV Care Formula Grants	66,448	114,728
93.925	Scholarships for Health Profession Students from Disadvantages Backgrounds	8,054	16,406
93.928	Special Projects of National Significance	14,999	262,823
93.951	Demonstration Grants to States with Respect to Alzheimer's Disease	0	22,007
93.953	Modification of Trauma Care Component of State EMS Plan	0	86,149
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	180,633	152,339
93.978	Preventive Health Services-Sexually Transmitted Diseases Research	10,113	88,200
93.991	Preventive Health and Health Services Block Grant	724,260	1,062,910
93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	3,003,574	3,438,868
93.994	Maternal and Child Health Services Block Grant	2,289,186	2,249,458
	Miscellaneous		
93.999	Other Miscellaneous Non-Major Grants	1,665,539	1,596,878
	Total for Agency	$287,787,948	$344,328,286
	Miscellaneous		
99.999	Other Miscellaneous Non-Major Grants	$ 324,578	$ 1,051,151
	Total for Agency	$ 324,578	$ 1,051,151
	Grand Total	$841,674,371	$948,530,151

STATE OF MONTANA
NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Federal Financial Assistance of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Programs
The amounts reported for Food Distribution programs (CFDA #10.550, 10.553, 10.555, 10.567, 10.569, 10.570, and 10.571) represent the dollar value of food commodities distributed to eligible recipients during the year. The amount of funds received to administer the commodities programs may also be included in the reported amount. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported.

Food Stamps Program
The amount reported for the Food Stamps program (CFDA #10.551) represents the face value of the food stamps issued to eligible recipients.

Federal Surplus Personal Property
The amounts presented for Donations of Federal Surplus Personal Property (CFDA #39.003) are the donated values of the property at the time of receipt. The amounts reported for this program could not be agreed to supporting records maintained by the Montana Department of Administration.

Guaranteed Student Loans
The amount presented for Guaranteed Student Loans (CFDA #84.032) represents the amount of new loans guaranteed, administrative expenses, and loans at risk due to debts and defaults during each year presented.

Perkins Loan Program
The amount reported for the Perkins Loan program (CFDA #84.038) represents the amount of loans outstanding at June 30, plus the administrative costs expended as of June 30 for each year presented.

Note 2. Major Federal Financial Assistance Programs

In accordance with the criteria established by P.L. 98-502 and OMB Circular A-128, a major federal financial assistance program for the State of Montana is defined as assistance to the state exceeding $3 million for any federal program in any fiscal year ended June 30.

The amounts reported for CFDA #15.999 included $21,150,278 and $21,799,728 for fiscal years 1991-92 and 1992-93, respectively, for the mineral leasing program from the Bureau of Land Management. The mineral leasing program, which does not have a specific CFDA number, was audited as major federal financial assistance.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Federal Financial Assistance was based upon agency agreements with the federal government and the Catalogs of Federal Domestic Assistance in effect during the audit period.

The December 1990 Catalog of Federal Domestic Assistance published a change related to programs under the Department of Health and Human Services (HHS). CFDA numbers were changed from 13.xxx to 93.xxx. The HHS programs are reported under CFDA numbers 93.xxx on the accompanying schedule for consistency between fiscal year 1991-92 and 1992-93.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99 or **.999. The first two digits represent the federal agency and the third digit represents the division within the federal agency. In cases where the federal agency could not be identified, the program was assigned a CFDA # in the format 99.999.

Note 4. Cooperative Forestry Assistance Program

The Montana Department of State Lands received Federal Excess Personal Property (FEPP) through the Cooperative Forestry Assistance program (CFDA 10.664). In fiscal years 1991-92 and 1992-93, the department received property valued at $2,821,278 and $1,291,579, respectively. The department's perpetual inventory system accounts for the FEPP based on the original acquisition cost to the federal government. Therefore the records do not reflect the current market value of the property. The department maintains property inventory records for capital and sensitive federal excess equipment, which it reconciles with the USDA, Forest Service every two years. The balance of FEPP on the department's inventory records at March 28, 1994 was $8,935,955.

The federal government retains title to the property. The Department of State Lands coordinates disposal of FEPP with the U.S. Forest Service and General Services Administration. All proceeds from the sales go to the federal government. The value of FEPP related to this program is not reflected in the accompanying Schedule of Federal Financial Assistance.

Note 5. Department of Defense Grants

The U.S. Department of Defense obtained a legal opinion that the federal Single Audit Act does not apply to National Guard funds. Therefore, the accompanying schedule does not include any assistance received from U.S. Department of Defense, Air and Army National Guard.

Note 6. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1992 was $651,291 and was $700,461 as of June 30, 1993. The accompanying schedule does not include these amounts.

Note 7. Revenue from Federal Drug Seizures

The Montana Department of Justice receives revenue from federal drug and property seizures. Currently, there has been no final determination made regarding whether the revenue should be recorded as revenue from a federal source. The amount of revenue received in fiscal years 1991-92 and 1992-93 was $20,448 and $178,584, respectively. These amounts are not included on the accompanying schedule but are recorded on the state's accounting records.

Note 8. Petroleum Violation Escrow Funds

Various agencies within the State of Montana receive funds from Petroleum Violation Escrow (PVE) funds through the U.S. Department of Energy. The funds are passed through the Montana Department of Administration to the other state agencies. During fiscal years 1991-92 and 1992-93, there was no CFDA number assigned to the PVE funds. The expenditures from these funds are reported under CFDA #81.999. Total PVE funds spent by the state for fiscal years 1991-92 and 1992-93 were $1,951,005 and $1,623,209, respectively.

Note 9. Wildlife Mitigation

The Montana Department of Fish Wildlife and Parks receives money from the Bonneville Power Administration for the protection, mitigation and enhancement of wildlife habitat affected by the development of dams within the state. During fiscal years 1991-92 and 1992-93, the department received $2 million each year. The money is deposited in a trust fund which at June 30, 1993, had a balance of approximately $8.6 million. The $2 million deposited in the trust fund each year is not reported on the accompanying schedule. However, the department spent trust fund investment earnings of $359,288 and $253,201 in fiscal years 1991-92 and 1992-93, respectively, and these amounts are reported on the schedule under CFDA #81.999.

Note 10. Subgrants

Federal assistance subgranted from one Montana state agency to another Montana state agency is excluded from the Schedule of Federal Financial Assistance.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as direct grants to the state and are reported on the Schedule of Federal Financial Assistance.

Reports on Internal Controls

STATE OF MONTANA

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON AUDITS OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1992 and 1993, and have issued our reports thereon dated November 6, 1992, and November 5, 1993, respectively.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audits of the general purpose financial statements for each of the two fiscal years ended June 30, 1992 and 1993, we considered the State of Montana's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the state's general purpose financial statements and not to provide assurance on the internal control structure.

The management of the State of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Cash	Payroll	Inventory
Revenue/Receivables	Investments	Budget Amounts
Expenditures/Payables	Long Term Debt	School Foundation
State Legal Compliance	Central Data Processing	Federal Assistance
Property, Plant and Equipment		

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Our audit disclosed a reportable condition concerning internal controls at the Department of Family Services. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the control categories described above. These matters are discussed in issues B12-1 to B12-8, in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of Montana in separate communications as part of individual agency audits.

This report is intended for the information of management and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 21, 1994

STATE OF MONTANA

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JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1992 and 1993, and have issued our reports thereon dated November 6, 1992, and November 5, 1993, respectively. We have also audited the State of Montana's compliance with requirements applicable to major federal financial assistance programs and have issued our reports thereon dated March 21, 1994.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the State of Montana complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the two fiscal years ended June 30, 1992 and 1993, we considered the State of Montana's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the state's general purpose financial statements, and on its compliance with requirements applicable to major federal financial assistance programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to the general purpose financial statements in a separate report dated March 21, 1994.

The management of the State of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide

management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories.

<u>Accounting</u>

- Cash
- Revenue/Receivables
- Expenditures/Payables
- Central Data Processing
- Property, Plant and Equipment
- Payroll
- Investments
- Long Term Debt
- Federal Assistance
- Inventory
- Budget Amounts
- State Compliance
- School Foundation

<u>Administrative</u>

<u>General Requirements</u>

- Civil Rights
- Davis-Bacon Act
- Cash Management
- Political Activity
- Drug-free Workplace
- Federal Financial Reports
- Administrative Requirements
- Allowable Costs/Cost Principles
- Relocation Assistance and Real Property Acquisition

<u>Specific Requirements</u>

- Reporting
- Eligibility
- Cost Allocation
- Types of Service
- Special Requirements
- Monitoring Subrecipients
- Amounts Claimed/Used for Matching
- Claims for Advances and Reimbursements
- Matching, Level of Effort, or Earmarking

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During each of the two fiscal years ending June 30, 1992 and 1993, the State of Montana expended 87 percent and 88 percent, respectively, of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the state's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a three year cyclical basis. Our procedures covered 94 percent for each of the two fiscal years ended June 30, 1992 and 1993, respectively, administered by the State of Montana as a whole. The nonmajor programs not covered during 1992 and 1993 have been or are expected to be subject to such procedures at least once during the three year cycle.

We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

Our audit disclosed reportable conditions concerning internal controls at the Department of Family Services and the Department of Administration. The conditions relate to inappropriate design and incomplete implementation of control policies and procedures in several of the control categories described above. These matters are discussed in issues B12-1 to B12-8 and B10-1 to B10-3 respectively, in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance programs would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition related to Department of Family Services described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of Montana in separate communications as part of individual agency audits.

This report is intended for the information of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 21, 1994

Reports on Compliance and Schedule of Questioned Costs

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
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Operations and EDP Audit

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Performance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AUDITS OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1992 and 1993, and have issued our reports thereon dated November 6, 1992, and November 5, 1993, respectively.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State of Montana is the responsibility of the State of Montana management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the State of Montana's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective of the audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the State of Montana complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Montana had not complied, in all material respects, with those provisions.

This report is intended for the information of management, the federal cognizant agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 21, 1994

STATE OF MONTANA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1993 and have issued our reports thereon dated November 6, 1992 and November 5, 1993, respectively.

We have audited the State of Montana's compliance with the requirements governing:

- Eligibility
- Reporting
- Cost Allocation
- Subrecipient Monitoring
- Types of services allowed or unallowed
- Claims for advances and reimbursements
- Amounts claimed or used for matching
- Matching, level of effort, or earmarking
- Tests of special requirements related to:

-- exit interviews conducted in connection with the Perkins Loan Program (CFDA #84.038) and the Guaranteed Student Loan Program (CFDA #84.032);

-- locating absent parents, enforcing child support obligations, and separation of cash handling and accounting functions in connection with the Child Support Enforcement Program (CFDA #93.563);

-- proper accounting, adequate warehousing, and distribution of surplus property in connection with the Donation of Federal Surplus Personal Property Program (CFDA #39.003);

that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the two fiscal years ended June 30, 1993. The management of the State of Montana is responsible for the State of Montana's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Montana's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed two instances of material noncompliance with the requirements listed above. The Department of Family Services did not comply with specific requirements for allowability, eligibility, cost allocation and monitoring subrecipients. Also, the Department of Administration did not comply with special requirements related to the Donated Federal Surplus Personal Property Program. In our opinion, compliance with these specific requirements for the Foster Care - Title IV-E (CFDA #93.658) at the Department of Family Services and the Donation of Federal Surplus Personal Property (CFDA #39.003) at the Department of Administration is necessary for the State of Montana to comply with the requirements applicable to these major programs. These conditions are further described in issues B12-3, B12-4, B12-5, and B12-6, and issue B10-1, respectively, in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

In addition, the results of our audit disclosed immaterial instances of noncompliance with the requirements referred to above, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for those instances of noncompliance with the requirements referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Questioned Costs and the Federal Issues, Recommendations, and Responses by State Agency section of this document, the State of Montana complied, in all material respects with the requirements referred to in paragraph two above that are applicable to each major federal financial assistance program for the two fiscal years ended June 30, 1993.

This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 21, 1994

STATE OF MONTANA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1992 and 1993, and have issued our reports thereon dated November 6, 1992 and November 5, 1993, respectively.

We have applied procedures to test the State of Montana's compliance with the following requirements applicable to each federal financial assistance program, which are identified in the schedule of federal financial assistance for the two fiscal years ended June 30, 1993.

Cash Management
Political Activity
Federal Financial Reports
Allowable Cost/Cost Principles
Relocation Assistance and Real Property Acquisition
Civil Rights
Davis-Bacon Act
Drug-free Workplace
Administrative Requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Montana's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Montana had not complied in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Questioned Costs and the Federal Issues, Recommendations, and Responses by State Agency section of this document.

This report is intended for the information of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett CPA
Deputy Legislative Auditor

March 21, 1994

STATE OF MONTANA

Office of the Legislative Auditor

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Performance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1992 and 1993, and have issued our reports thereon dated November 6, 1992 and November 5, 1993, respectively.

In connection with our audit of the general purpose financial statements of the State of Montana as of and for each of the two fiscal years ended June 30, 1992 and 1993, and with our study and evaluation of the State of Montana's internal control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for each of the two fiscal years ended June 30, 1993. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; and subrecipient monitoring that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Montana's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed an instance of noncompliance with the requirements listed in the preceding paragraph which caused us to conclude that the misstatements resulting from the noncompliance are material to the Aging Programs (CFDA #93.633, #93.635, #93.668) and Child Care Development Program (CFDA #93.037/93.575). The Department of Family Services did not comply with OMB Circular A-128 requirements for monitoring subrecipients. This condition is further described in issue B12-4 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

Except as described above, the results of our procedures to determine compliance indicate that, with respect to the items tested, the State of Montana, complied in all material respects, with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Montana had not

complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

This report is intended for the information of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 21, 1994

STATE OF MONTANA
SCHEDULE OF QUESTIONED COSTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993

STATE AGENCY: CFDA #	Program Name	Amounts Questioned	Finding References
Board of Regents and Commissioner of Higher Education:			
84.048	Carl Perkins	$ 35,795	A1-2
Montana College of Mineral Science and Technology:			
15.502	Turner Hogeland Project	692	A2-1
15.221	Groundwater Study	944	A2-1
15.800/15.899	NCRDS	970	A2-1
Northern Montana College:			
81.041	Energy Conservation[1]	85	A3-1
Vocational-Technical Centers:			
84.063	Pell Grants	4,615	A5-2
84.032	Stafford Loans	1,725	A5-2
84.032	Stafford Loans	1,853	A5-3
84.048	Carl Perkins	500	A5-3
84.033	Federal Work Study	8,873	A5-6
Department of Fish, Wildlife and Parks:			
15.611 &15.605	Wildlife and Sport Fish Restoration	71	B1-1
Department of Labor and Industry:			
17.207	Wagner Peyser	28,771	B2-1
17.801	Disabled Veterans Outreach Program	1,638	B2-1
17.804	Local Veterans Employment Representation	2,879	B2-1
17.225	UI Base	9,617	B2-1
10.551	Food Stamps	1,495	B2-1
17.245	World of Work[1]	267	B2-1
17.225	Trade Adjustment Assistance	205	B2-1
17.207	Targeted Job Tax Credit	714	B2-1
17.203	Labor Certification	223	B2-1
10.551	Project Work	2,842	B2-1
17.250	JTPA II[1]	8,625	B2-1
17.246	EDWAA	1,049	B2-1
17.250	JTPA Title II	1,092	B2-1
93.021/93.561	Jobs	962	B2-1
17.225	Emergency Unemployment Compensation Act	386	B2-2
Montana Arts Council:			
45.007	Promotion of Arts - State and Regional Program	8,608	B4-1
45.023	Promotion of Arts - Local Programs	535	B4-1
45.010	Promotion of Arts - Expansion Arts	340	B4-1
45.015	Promotion of Arts - Folk Arts	264	B4-1
45.003	Promotion of Arts - Arts in Education	218	B4-1
Department of Revenue:			
93.020/93.560	Welfare Fraud[1]	4,238	B6-1
93.775	Medicaid Fraud[1]	192	B6-1
Department of Social and Rehabilitation Services:			
93.020/93.560	AFDC	12	B9-3
10.567	Food Distribution (needy family)	944	B9-3
81.042	Weatherization	472	B9-3
93.028/93.568	Low-Income Home Energy Asst. Program	64	B9-3
93.031/93.569	Community Services Block Grant	88	B9-3
10.570	Aging III-A	293	B9-3
93.778	DD Medicaid Waiver Medical Assistance	463	B9-5

complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

This report is intended for the information of management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 21, 1994

STATE OF MONTANA
SCHEDULE OF QUESTIONED COSTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993

STATE AGENCY: CFDA #	Program Name	Amounts Questioned	Finding References
Board of Regents and Commissioner of Higher Education:			
84.048	Carl Perkins	$ 35,795	A1-2
Montana College of Mineral Science and Technology:			
15.502	Turner Hogeland Project	692	A2-1
15.221	Groundwater Study	944	A2-1
15.800/15.899	NCRDS	970	A2-1
Northern Montana College:			
81.041	Energy Conservation[1]	85	A3-1
Vocational-Technical Centers:			
84.063	Pell Grants	4,615	A5-2
84.032	Stafford Loans	1,725	A5-2
84.032	Stafford Loans	1,853	A5-3
84.048	Carl Perkins	500	A5-3
84.033	Federal Work Study	8,873	A5-6
Department of Fish, Wildlife and Parks:			
15.611 &15.605	Wildlife and Sport Fish Restoration	71	B1-1
Department of Labor and Industry:			
17.207	Wagner Peyser	28,771	B2-1
17.801	Disabled Veterans Outreach Program	1,638	B2-1
17.804	Local Veterans Employment Representation	2,879	B2-1
17.225	UI Base	9,617	B2-1
10.551	Food Stamps	1,495	B2-1
17.245	World of Work[1]	267	B2-1
17.225	Trade Adjustment Assistance	205	B2-1
17.207	Targeted Job Tax Credit	714	B2-1
17.203	Labor Certification	223	B2-1
10.551	Project Work	2,842	B2-1
17.250	JTPA II[1]	8,625	B2-1
17.246	EDWAA	1,049	B2-1
17.250	JTPA Title II	1,092	B2-1
93.021/93.561	Jobs	962	B2-1
17.225	Emergency Unemployment Compensation Act	386	B2-2
Montana Arts Council:			
45.007	Promotion of Arts - State and Regional Program	8,608	B4-1
45.023	Promotion of Arts - Local Programs	535	B4-1
45.010	Promotion of Arts - Expansion Arts	340	B4-1
45.015	Promotion of Arts - Folk Arts	264	B4-1
45.003	Promotion of Arts - Arts in Education	218	B4-1
Department of Revenue:			
93.020/93.560	Welfare Fraud[1]	4,238	B6-1
93.775	Medicaid Fraud[1]	192	B6-1
Department of Social and Rehabilitation Services:			
93.020/93.560	AFDC	12	B9-3
10.567	Food Distribution (needy family)	944	B9-3
81.042	Weatherization	472	B9-3
93.028/93.568	Low-Income Home Energy Asst. Program	64	B9-3
93.031/93.569	Community Services Block Grant	88	B9-3
10.570	Aging III-A	293	B9-3
93.778	DD Medicaid Waiver Medical Assistance	463	B9-5

STATE OF MONTANA
SCHEDULE OF QUESTIONED COSTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993
(continued)

STATE AGENCY: CFDA #	Program Name	Amounts Questioned	Finding References
Department of Family Services:			
93.658	Foster Care - Title IV-E	12,600,000	B12-3
93.xxx	Aging Program (93.633, 93.635, 93.668) and Child Care Development Program (93.037/93.575)	12,000,000	B12-4
93.658	Foster Care - Title IV-E	9,257	B12-5
93.xxx	Foster Care (93.020/93.560, 93.645, 93.658, 93.674) and Aging (93.633, 93.635, 93.668)	139,222	B12-6
TOTAL QUESTIONED COSTS IN THIS SINGLE AUDIT REPORT		$24,882,098	

[1] Federal Assistance was a sub-grant from another state agency.

Federal Issues, Recommendations, and Responses by State Agency

Board of Regents and Commissioner of Higher Education

Federal Program Compliance and Management

The federal Single Audit Act of 1984 requires auditors to test compliance with federal laws and regulations which apply to the operation and management of federal assistance programs. To comply with federal audit requirements, our report discloses federal compliance issues identified during the audit, including identification of questioned costs.

Questioned costs are costs which, based on our audit work, may not be consistent with the requirements set forth in the regulations governing the allocability, allowability, or reasonableness of costs charged to specific federal programs.

Agency management is responsible for directing the corrective action or resolution associated with federal compliance issues and questioned costs, by submitting a plan for corrective action to the appropriate federal cognizant agency.

Carl D. Perkins Vocational Education Program

The Board of Regents is the sole state recipient of funds under the Carl D. Perkins Federal Vocational Education Act (CFDA #84.048). Carl Perkins grants are used to promote vocational education in the state. On behalf of the board, Commissioner of Higher Education (CHE) subgrants Carl Perkins grant moneys to the Office of Public Instruction (OPI) for secondary vocational education projects. CHE also administers Carl Perkins grants to the five vocational-technical centers, colleges and universities, and community colleges offering a two-year program plan. During our audit we identified areas where CHE could improve its compliance with federal regulations pertaining to the Carl Perkins program. The following two report sections discuss areas for improvement.

A1-1 Cash Management

CHE subgrants Carl Perkins funds to post-secondary educational institutions to fund specific projects. During our audit of the program, we determined CHE's system for distributing Carl Perkins funds to subrecipients is not adequate to keep federal cash disbursements limited to the institution's immediate cash needs. CHE distributes advances based on an estimate of need

established at the start of each grant period, not on demonstrated need. Federal regulations require CHE's financial management system to include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. These regulations also require advances made by CHE, to subrecipients, to conform substantially to the same standards of timing and amount as apply to advances by the federal government to CHE.

We reviewed one subrecipient's file during the audit period and, as shown in the table below, noted the advances, based on an estimate of need, resulted in excessive cash on hand.

Billings Vocational-Technical Center
Project Quarterly Reports

	Receipts	Disbursements	Excess Cash On Hand**
1st Qtr	$34,000	$10,690	$23,310
2nd Qtr	24,000	20,799	26,511
3rd Qtr	4,000	11,424	19,087
4th Qtr	14,088	22,111	11,064

** Excess cash on hand is identified on the quarterly report

We reviewed an additional two of the five vocational-technical centers' files, both identifying similar excessive cash balances on a quarterly basis.

Each subrecipient is required to submit a Project Quarterly Report of Disbursements and Estimated Requirements for Federal Funds. This report shows the amount of funds received during the quarter, the amount of funds disbursed during the quarter and the amount of funds on hand at the end of the quarter.

CHE personnel attempt to use this quarterly report to monitor subrecipient cash balances; however, these reports do not provide adequate information regarding cash needs or cash balances. CHE could improve its ability to monitor subrecipients by

requiring monthly cash balances to be reported on the quarterly reports. CHE could also improve control over subrecipient cash balances by distributing cash advances based on demonstrated need rather than monthly distributions based upon estimates of cash needs submitted at the start of each grant period.

Personnel explained the responsibility for monitoring the cash needs of the post-secondary institutions has changed due to turnover in personnel. Personnel currently responsible for procedures agreed to look into alternative procedures.

Recommendation #A1-1

We recommend CHE:

A. Establish procedures to monitor subrecipient cash balances.

B. Modify procedures to disburse funds based on demonstrated need.

Response #A1-1
Concur. The Office of the Commissioner of Higher Education does review the cash balances contained on the quarterly reports. If the report indicates cash on hand, the next cash distribution is reduced by that amount. In conjunction with the quarterly report information, the CHE Perkins fiscal staff is now reviewing the SBAS daily cash status report for the Vocational Technical Centers' balances. If, according to the daily cash report, the balance within each Vo-Tech's Perkins accounting entity does not indicate the need for further cash, the request for funds will not be processed. The cash request is not processed until a review of cash balances indicates the necessity of further disbursements.

A1-2 Time and Effort

Federal regulations require grant recipients to support the salaries and benefits of employees chargeable to more than one program with appropriate time sheets or time and effort certifications. The method used to allocate salaries and benefits should produce a fair distribution of time and effort among the programs served. During the prior audit of CHE, we determined agency personnel allocate their hours based on budgeted rather than actual time spent on each project. CHE concurred with our recommendation to establish procedures to document and charge only allowable costs to the Carl Perkins grant.

During the current audit, we determined CHE developed procedures to study the time and effort spent on the Carl Perkins program (CFDA #84.048), by pay period. The procedures, established in November 1992, include a fiscal year adjustment for actual time spent working on the program. However, due to personnel turnover and change in responsibilities, the process was not completed and the year-end adjustment was not made.

Because CHE did not implement a time and effort system to support personal service expenditures charged to the Carl Perkins grant, we question $18,501 and $17,294 in costs claimed in fiscal years 1992 and 1993, respectively.

Recommendation #A1-2

We recommend CHE ensure time and effort records support charges to the Carl Perkins grant and other federal programs.

Response #A1-2

Concur. In November 1992, procedures were established and distributed to employees whose responsibilities are split between federal and other programs. Time reports are submitted biweekly with individual time sheets and an accounting of time and effort is recorded on this time sheet. Any required

adjustments of actual percentage of time worked versus budgeted percentage of hours will be made at the end of the fiscal year. The adjustment could not be made for fiscal year 1993 because the procedures were not implemented in time to make a full year's analysis. The adjustment will be made for fiscal year 1994 and subsequent years.

Montana College of Mineral Science and Technology

A2-1 Compliance with Federal Regulations

The college receives federal financial assistance from various federal departments including the U.S. Departments of Energy (CFDA #81.xxx), Interior (CFDA #15.xxx), Labor (CFDA #17.xxx), and Education (CFDA #84.xxx), the Environmental Protection Agency (CFDA #66.xxx), and the National Science Foundation (CFDA #47.xxx). During fiscal year 1991-92, the college spent approximately $1.9 million relating to federal grants and contracts. We performed tests to determine the college's compliance with selected federal regulations and identified the following areas where the college could improve procedures to comply with federal regulations.

Leave Benefit Pool

The college established a leave benefits pool to pay accrued vacation and sick leave benefits when research personnel working on sponsored projects take leave or terminate employment. The pool was established to recover these costs from the federal grants and contracts which generated the leave costs.

The college charges grants and contracts for the estimated cost of leave benefits paid to employees who work on federally sponsored projects. These charges are transferred to fund the leave benefits pool. We determined the college charges each federal grant or contract 4.6 percent of salaries for sick leave and 8 percent of salaries for vacation leave. The college uses 100 percent of sick leave in the calculation, even though these employees are paid for only 25 percent of their accumulated sick leave at termination.

Personnel stated the leave rate probably is high because sick leave used by college employees is minimal. For these leave benefits to be allowable under regulation, the college should have cost records to support the rates charged to the grants and contracts. The charges to the projects should be the actual anticipated cost of accumulated leave.

Overcharge of Leave Benefits

Federal grant regulations allow fringe benefits in the form of regular compensation, such as annual leave and sick leave, to be paid to employees working on grants provided the costs are distributed in proportion to the relative amount of time and effort actually devoted by the employee. During the prior audit, we reviewed the college's procedures for charging sick and annual leave benefits to grants and determined the procedures can result in overcharges to individual grants. We noted the same concern during the current audit.

The college charges grant and contract projects for actual time worked on the project. An additional percentage of salaries for leave time earned by employees while they worked on the projects is charged and transferred to the leave benefit pool. When an employee uses leave benefits during a specific month while working on a grant project, the college charges the leave to the grant on which the employee worked on during the time leave was taken, not to the grant in which the leave benefits were earned or the pool. The college manually adjusts for those employees 100 percent federally funded and backs the charges out of the direct grant charging them to the pool. However, for employees who do not work 100 percent on a federal project, an adjustment is not made.

The current method of adjustment can overcharge grants for those employees not funded 100 percent with federal funds. Employees may work on several grant projects or other college projects over a period of time. For these split funded employees, personnel said payroll records do not differentiate where leave is earned; therefore, the college charges the leave to the grant on which the employee worked during the time leave was taken. As a result, the grant is charged twice; once when leave is earned and again when taken.

We found three grants with charges from four employees partially funded with federal funds where leave was charged to the grant when earned and again when taken. As a result, we question the allowability of $2,606 charged to the following grants.

CFDA # 15.502 Turner Hogeland Project	$692
CFDA # 15.221 Groundwater Study	944
CFDA # 15.800/15.899 NCRDS	970

Recommendation #A2-1

We recommend the college:

A. Maintain cost records to support the leave benefit rates charged to grants and contracts.

B. Establish procedures to ensure the college does not double charge leave benefits to grant projects.

Response #A2-1

A. Concur. A written policy has been instituted to document leave benefits to be charged to grants and contracts. New procedures instituted in B (below) will constitute the new policy.

B. Concur. Procedures were in place previously for charging leave benefits to grant projects. However, they were not entirely satisfactory to the auditors. A new procedures has been put into place effective July 1, 1992 which should alleviate future problems.

A2-2 Schedule of Federal Financial Assistance

College personnel prepare a Schedule of Federal Financial Assistance (SFFA) each year. The schedule shows expenditures of federal funds by type of assistance, listed according to a catalog number assigned by the federal government. The Governor's Office compiles schedules from each state agency into a single Schedule of Federal Financial Assistance for the state of Montana. We express an opinion on the statewide SFFA in our biennial Single Audit report.

Federal regulations require the state, including the college, to accurately report the total expenditures for each federal financial assistance program by grantor. For federal loan programs, such

as the Perkins Loan program, the college is required by regulation to report the total amount of loans outstanding rather than expenditures. The federal financial assistance reported expenditures must be supported by the state's accounting records.

During the past three audits of the college we identified errors and omissions from the college's schedules of federal financial assistance. During the current audit we identified the following errors and omissions in federal financial assistance amounts, misstating the information reported to the Governor's Office for fiscal years 1991 and 1992.

-- The college reported both the federal and state share of the Supplemental Educational Opportunity Grant (SEOG) program funds (CFDA #84.007), overstating the SFFA by $3,100 and $5,190 in fiscal years 1991 and 1992, respectively.

-- The college did not include on its fiscal year 1991 and 1992 SFFAs, loans outstanding for the Perkins Loan program (NDSL) (CFDA #84.038) totaling $471,825 and $544,820, respectively, and money received as subgrants from state agencies totaling $11,531 and $10,462, respectively.

-- The college receives a federal capital contribution of $22,938 each fiscal year from the U.S. Department of Housing and Urban Development College Housing Program (CFDA #14.999) to subsidize the debt service payment towards the Student Union Building. The college has never reported these moneys on its SFFA.

The table below identifies the federal programs and the amounts misstated in the college's report to the Governor's Office.

Summary of Misstatements

CFDA #	Program Description	1990-91 Overstated (Understated)
66.419	Hart Oil Task 400007-14	(175)
84.069	Grants to States for Student Incentives (SSIG)	(7,717)
84.038	Perkins Loan Program	(471,825)
81.004	Cooperative Education	(3,639)
84.007	Supplemental Educational Opportunity Grant (SEOG)	3,100
14.999	Student Union Sinking Fund	(22,938)
		1991-92 Overstated (Understated)
84.038	Perkins Loan Program	(544,820)
84.069	Grants to States for Student Incentives (SSIG)	(8,152)
84.007	Supplemental Education Opportunity Grant (SEOG)	5,190
81.004	Cooperative Education	(2,310)
14.999	Student Union Sinking Fund	(22,938)

Source: Compiled by the Office of the Legislative Auditor

The college's financial statements and the state's accounting system are correct.

College officials said they were unaware the cooperative education funds should be reported and erroneously omitted the remaining federal sources.

Recommendation #A2-2

We recommend the college provide accurate federal financial assistance information to the Governor's Office.

Response #A2-2
Concur. The noted federal programs and applicable amounts will be reported on the next federal assistance report submitted to the Governor's Office. As indicated in the audit report, the college's financial statements and the state's accounting system are correct.

A2-3 Federal Property Records

The college uses the Property Accountability Management System (PAMS) to manage and account for capital equipment, which totalled $8,862,496 at June 30, 1992. The equipment records maintained by the college do not identify equipment purchased partially with federal funds, or equipment purchased with state or private funds used to match federal grants.

Federal regulations, OMB Circular A-110 (Attachment N), require the college to maintain property records to identify equipment purchased, in part or in whole, with federal funds. If the required property records are maintained, federal regulations allow the college to include equipment purchased with non-federal funds or funds not used to match a federal grant in its indirect cost calculation.

We identified a $12,920 equipment purchase funded with private funds (foundation) and federal moneys. The college used the $7,697 of private funds as match for a National Science Foundation (NSF) grant (CFDA #47.064/47.999) and the additional $5,223 was federal moneys for the particular grant. The equipment was properly recorded on the PAM system; however, as of May 1992, $10,446 was not identified as being purchased as part of a federally funded project.

In the prior audit of the college, we identified the same concern and recommended proper identification for federally funded equipment purchases. The college concurred and searched back to July 1, 1984 to identify equipment purchased with federal funds. However, the identification was based on equipment purchased directly with federal funds and did not include those purchased in part, or those purchased with state funds but used as match for a federal project.

College personnel responsible for recording property on the accounting records indicated the purchase information provided is insufficient to determine whether the purchase was part of a federal project. Personnel are aware procedures need to be in place to allow proper recording of the equipment identification by funding source.

Recommendation #A2-3

We recommend the college identify equipment purchased as part of a federally funded project on the property records in accordance with federal regulations.

Response #A2-3

Concur. As of the PAMS report dated September 30, 1993, all equipment purchased directly with federal funds are identified in accordance with federal regulations. The item purchased in part with federal funds has since been identified. Procedures are in place to identify equipment purchased, in part or in whole, with federal funds.

A2-4 Accounting for Grant Match

The college is the recipient of several federal grants which require a state or private match to the grant. The college maintains a system to track personal service expenditures used as match specific to grants; however, the match for operating expenditures and equipment purchases is not specifically identified to a specific grant on the state's accounting records.

We reviewed two grants having equipment and operating expenditures as match. The college used $20,555 of equipment expenditures to match a National Science Foundation (CFDA #47.064/47.999) grant and used $19,198 in operating expenditures to match an Environmental Protection Agency (CFDA #66.500) grant. The expenditures were not specifically identified on the state's accounting records as match to a particular federal grant.

Federal regulation OMB Circular A-110 (Attachment F), states, "recipient's financial management systems shall provide for accurate, current, and complete disclosure of financial results of each federally sponsored project or program." Without specifically identifying expenditures used to match a specific federal grant, the chance of the same expenditures being used to match multiple grants exists.

We noted the same concern during the previous audit and recommended the college separately identify operating expenditures and equipment purchases used as match on the state's accounting records. The college concurred and established separate accounts to identify match for those grants to which we had previously taken exception, but not a system to monitor the tracking of all match.

Recommendation #A2-4

We recommend the college separately identify operating and equipment expenditures used to match federal grants on the state's accounting records.

Response #A2-4

Concur. In fact, separate responsibility centers have been set up in the past to account for equipment match. In the future, separate centers will be set up to track operating expenditures match.

A2-5 Allowable Match

We reviewed one grant where the value of certain operating expenditures were used as match but were not specifically allowed per the grant agreement. The grant agreement stated personal service expenditures would be used as match. However, the college used the value of utilities and rent as match. The college also received a third-party contribution of equipment use for use as match on the same federal grant project. The use of

the equipment was valued at $500,000. However, the college could not provide support for the calculation of this amount.

Federal regulation OMB Circular A-110 (Attachment E), requires all contributions, including third-party in-kind contributions approved by the grantor in advance, as part of the recipients cost sharing and matching when such contributions . . . are verifiable from the recipient's records; and are provided for in the approved budget when required by the federal agency. Attachment E also states specific procedures should be used in establishing the value of in-kind contributions from nonfederal third parties, and the basis for determining the valuation for equipment must be documented.

A college official believed he could use whatever he wanted to meet the match requirement as long as the requirement is met. However, state expenditures used to match federal expenditures, should be the expenditures approved by the grantor in the grant agreement. In addition, documentation should support amounts claimed as match.

Recommendation #A2-5

We recommend the college:

A. Ensure state expenditures used to match federal expenditures are allowable under the grant agreement.

B. Ensure the valuation of third-party contributions is adequately documented in accordance with federal regulations.

Response #A2-5

A. Do not concur. In discussing this recommendation with the federal contract officer of the grant in question, the officer stated this was an estimate only and as long as the bottom line was met, the federal agency had no objection as to the source of the match. We have since requested a no cost

budget revision from the agency to adjust the match budget. No response was received.

B. Concur. The contract in question had many references to the third party contribution in the body of the proposal and was approved by the contracting agency. We did not, however, request the required documentation from the third party as noted. This has since been done and a letter was received hopefully with the proper documentation.

A3-1 Federal Financial Assistance Questioned Costs

In our previous audit report we recommended college personnel responsible for charges made to federal assistance programs be familiar with federal requirements to ensure charges are allowable to the programs. The college business office requires written authorization from personnel responsible for expenditures of federal grant funds. The following describes an instance where college personnel responsible for expenditures of federal funds were not fully aware of federal requirements.

The college received a federal subgrant from the state Department of Natural Resources and Conservation (DNRC) for energy conservation (CFDA #81.041) for the college's tractor resource center. The subgrant funded ten seminars showing participants how tractors can become more energy efficient. In June 1993, the college charged $85 to the grant for a dinner at a restaurant in Havre attended by three tractor resource center employees and three employees of the state Department of Agriculture. Tractor resource personnel stated the purpose of the meeting was to discuss the continuation of the program and that no participants of the seminar attended this dinner.

Federal guidelines define allowable costs as necessary and reasonable for proper and efficient administration of federal programs and specifically prohibit entertainment charges. Tractor resource center personnel believed the charge to the program was reasonable because the participants discussed continued program development. However, the subgrant from DNRC specifies the funds be spent on conducting seminars. DNRC personnel also stated the dinner expense was not allowable and would have denied reimbursement had they known of the specific charge. As a result, we question $85 spent under the DNRC subgrant.

Recommendation #A3-1

We recommend the college ensure personnel approving charges to federal assistance programs are familiar with federal requirements to determine which costs are allowable to the program.

Response #A3-1
Concur. Fiscal affairs personnel are currently working to devise procedures to advise current and future federal grant project directors of federal regulations and unallowable costs for federal grants. In addition, the Business Office has recently started to perform a separate review of all grant related transactions to provide an additional safeguard. As with overall federal regulatory compliance, implementation of this audit recommendation represents a continual process and an important goal to Northern Montana College.

Compliance with Federal Regulations

The university receives financial assistance from several federal agencies including U.S. Departments of Education (CFDA #84.xxx), Health and Human Services (CFDA #93.xxx), Agriculture (CFDA #10.xxx), Interior (CFDA #15.xxx), the National Science Foundation (CFDA #47.xxx), and various other federal agencies. During fiscal year 1992-93 the university spent approximately $17 million relating to federal programs. We performed tests to determine the university's compliance with selected federal regulations. We identified the following areas where the university could improve procedures to comply with federal regulations.

A4-1 Notifying Lenders

Federal regulations for the Stafford Loan Program (CFDA #84.032) require institutions to promptly report a change in a student's enrollment status to the lender or guarantee agency if a student has graduated, withdrawn, or ceased to be enrolled at least half-time. Regulations further define "promptly" as within 60 days.

We reviewed the university's procedures for reporting enrollment changes within 60 days. We found the university has procedures in place to notify lenders about students who withdraw or drop to less than half-time, but not for students who graduate. The university relies on the student confirmation report (SCR) to notify the lenders or guarantee agency for graduating students. The students graduate in May, but the report is not submitted until October.

If the university does not notify the lender or guarantee agency within 60 days of students graduating, the lender or guarantee agency will not be able to initiate student loan repayment as soon as possible. The university performs interviews with each graduating student who received a loan to explain the loan repayment schedules. The university could use this process to identify graduating students and send a letter to the lender or guarantee agency at that time.

Recommendation #A4-1

We recommend the university implement procedures to ensure the guarantee agency or lender is notified of graduating students within 60 days.

Response #A4-1

THE UNIVERSITY PARTIALLY CONCURS WITH THE RECOMMENDATION. We understand regulations regarding notification of graduates and feel our present procedures meet the intent of this regulation. Currently, a student requesting a federal loan must report an anticipated graduation date. We forward this information to each lender and guarantee agency several months prior to graduation. This allows the guarantee agency or lender the ability to anticipate loan collection. If a student misrepresents this date on the loan request, the Financial Aid Office will detect the error during the next enrollment period. Personnel at the Montana Guaranteed Student Loan Program indicated our present procedures are adequate in complying with this recommendation.

A4-2 Federal Subgrant Monitoring

The federal Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128 require agencies receiving more than $25,000 of federal financial assistance annually, to have an audit performed to ensure compliance with federal regulations. These reports must be submitted to grantors or primary recipients. It further requires governments which provide $25,000 or more of federal assistance annually to one or more subrecipients ensure subrecipients comply with federal regulation. This is usually done through a review of audits of the subrecipients. The regulations further require governments to ensure subrecipients have taken prompt and appropriate action on instances of material noncompliance.

The university has contracts with several subrecipients most of which exceed $25,000. The contracts require annual audits. The following table summarizes the source of these funds.

Source of Federal Subcontracts

Federal Granting Agency	Performance Period	Contract Amount
Dept. of Health and Human Service		
National Institute of Health	4/92-3/93	$70,851
Center for Disease Control	9/92-9/93	66,305
Dept. of Interior	4/93-6/93	22,000
Dept. of Energy	9/92-9/94	146,200
National Science Foundation	2/92-1/95	24,253
Department of Education	2/92-9/93	61,475
" "	10/92-9/93	33,588
" "	11/90-9/92	94,100
" "	9/92-9/93	563,586
National Aeronautics & Space Admin.	3/91-3/93	279,206
US Ag. for International Development	9/92-9/93	8,320

Source: Compiled by the Office of the Legislative Auditor from university records.

Through discussions with university personnel, we determined they review expense reports and ensure the duties of the subrecipient have been performed, but do not review audits for evidence the subrecipient complied with federal regulations. Personnel indicated the university is currently in the process of assigning responsibility to one department or unit within the university to review subrecipient audits. Since university personnel indicated the number of subgrants increases every year, the need for procedures to monitor subrecipient audit reports also increases every year.

Recommendation #A4-2

We recommend the university comply with federal regulations and assign responsibility to review audit reports of subrecipients.

Response #A4-2

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. In Fiscal Year 1995, we will develop and implement procedures to comply with this recommendation.

A4-3 Grant Reporting

In our prior audit, we noted problems with the timeliness of both the grant billing and the final grant reporting. During our current audit we reviewed grant files to determine if the recommendation was implemented. We found the university is submitting bills in accordance with grant requirements. For final reporting requirements, we noted only two instances, of 16 files reviewed, where the final report was not submitted in a timely manner. One report was 49 days late. The other was 105 days late and was not submitted until after the federal agency notified the university that the report was late. The university has made significant improvement in the timeliness of grant billing and reporting.

Recommendation #A4-3

We recommend the university continue to improve controls to ensure final grant reports are submitted in a timely manner.

Response #A4-3

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. We believe significant improvements in grant billing and reporting occurred in the past two years. In Fiscal Year 1994, a new computerized tickler system was implemented which further enhances our reporting controls.

A4-4 Refunds on Meal Plans

The university has several on-campus meal plans that students purchase. When a student purchases a meal plan, he/she is given a certain number of credits. If the student runs out of credits he/she can purchase more, but no refunds are allowed for unused credits.

During our audit we noted the athletic department awards scholarships to athletes that cover the cost of food and lodging. The athletes are initially awarded the smallest meal plan available. The athletes are allowed to obtain additional credits through their scholarship if they need it. Before the athletic

department pays for these additional meals, the credits not used by other athletes are used to offset the additional costs. The same procedures were used for resident hall assistants until the 1993-94 school year. Since students who do not receive athletic and residence hall scholarships cannot benefit from unused meals, the university is showing preferential treatment to athletes and resident hall assistants who receive scholarships. We determined the food service could have collected an additional $1,582 and $1,049 in revenues during fiscal year 1991-92 and 1992-93, respectively, had the unused credits not been pooled for redistribution.

We also noted the change in scholarships due to the increase or decrease in meals was not reported to the financial aid office. By not reporting this information to the financial aid office the potential for overawards exists. We noted four instances where potential overawards of Stafford Loans (CFDA #84.032) resulted due to these meal adjustments.

University personnel indicated this policy was made available to the departments to facilitate the most efficient use of budget dollars. Personnel further stated they reviewed the four instances and resolved the problem as required by the federal government.

Recommendation #A4-4

We recommend the university:

A. Charge the athletic department and residence hall assistants in the same manner it charges other students for meal plans.

B. Develop procedures to ensure all changes in residence hall assistants and athletic scholarships are reported to the financial aid office.

Response #A4-4

A. **THE UNIVERSITY CONCURS WITH THE RECOMMENDATION.** In Fiscal Year 1994, Residence Life no longer uses the meal plan refunds procedure and Intercollegiate Athletics developed alternative procedures to ensure student athletes meal plans were handled consistent with all other student meal plan holders.

B. **THE UNIVERSITY CONCURS WITH THE RECOMMENDATION.** We implemented new procedures in Fiscal Year 1994 to report all scholarship changes by Departments in a more timely fashion to the Financial Aid Office. Intercollegiate Athletics documented this change in the Procedures Manual.

A5-1 Carl Perkins Cash Management

The Commissioner of Higher Education (CHE) is the primary recipient of funds from the Carl Perkins Vocational Education (Perkins) grant (CFDA #84.048). CHE disbursed $4,077,047 and $4,337,159 of Perkins moneys in fiscal years 1991-92 and 1992-93, respectively. CHE subgrants this money to secondary and post-secondary schools throughout the state. All five centers receive Perkins moneys from CHE to administer projects related to vocational education.

Federal regulations require primary recipients to develop procedures which minimize the time elapsed between receipt and disbursement of federal funds. Secondary recipients, such as the centers, must conform substantially to the same cash management standards established for primary recipients.

Each center estimates its monthly cash needs for Perkins projects and annually reports this information to CHE. Based on the schedule provided, CHE transfers the requested funds to each unit monthly without regard to the amount disbursed by the center. We determined that by transferring these funds based on a schedule which is not adjusted for actual expenditures, the time elapsed between receipt and disbursement of funds exceeded federal standards. Cash balances accumulated in the Perkins grant account at each of the centers.

Compliance with federal cash management requirements is also discussed in the CHE audit report #93-30. In that report we recommended CHE establish procedures to monitor subrecipient cash balances and modify cash draw procedures to disburse funds based on demonstrated need.

The centers can improve their compliance with federal cash management requirements by working with CHE to establish cash draw procedures which more accurately match cash draws to program cash needs.

Recommendation #A5-1

We recommend the centers work with CHE to minimize the amount of time elapsed between the receipt and disbursement of Carl Perkins Vocational Education grant funds.

Response #A5-1

Concur. The Office of the Commissioner of Higher Education (OCHE) has always reviewed the cash balances contained on the quarterly reports submitted by all Perkins subrecipients. When the quarterly report indicated cash on hand, the next cash distribution was reduced by that amount.

In conjunction with the quarterly review, the Office of the Commissioner of Higher Education has implemented a new cash request procedure with the Vocational Technical Centers. When the Vo-Techs need Perkins cash, they submit an accounting document to OCHE. The fiscal staff of OCHE then reviews the cash on hand in the Vo-Tech's Perkins accounting entity. If the Vo-Tech's Perkins account indicates cash on hand, the OCHE fiscal staff does not process the accounting document. OCHE continues to review the accounting entity until the necessity for Perkins cash is evidenced by the balance in the Vo-Tech accounting entity.

Student Financial Assistance Awards

The Billings Vocational-Technical Center (center) participates in the federal student financial assistance programs. As a participating institution, the center has responsibility for documenting student eligibility and calculating allowable aid amounts. The following two sections indicate areas where the center can improve financial aid documentation.

A5-2 Ineligible Recipient

Federal regulations state if a student does not have a high school diploma or General Equivalency Diploma (GED) the center must document the student's "ability to benefit" before the student may receive student financial aid. One student received financial aid during fiscal years 1989-90, 1990-91, and 1991-92 even though the student's file did not contain a high school

diploma, GED, or other information to document the student's "ability to benefit." Since the center did not document the student's "ability to benefit," the student should not have been awarded financial aid. Center personnel said communication between the admissions office, which receives diplomas and GEDs, and financial aid personnel has been ineffective. By contacting the Office of Public Instruction, we confirmed the student received a GED in December 1991. Therefore, the student was not eligible to receive aid prior to January 1992. Since the center did not document eligibility, we question the following costs:

	FY1989-90	FY1990-91	FY1991-92
Pell (CFDA #84.063)	$1,065	$1,150	$2,400
Stafford (CFDA #84.032)	725	0	1,000

Recommendation #A5-2

We recommend the Billings Vocational-Technical Center document each student has the "ability to benefit" before awarding financial aid.

Response #A5-2

We concur. The Center has implemented a procedure where the Financial Aid Office receives a weekly update from the Admissions Office, that identifies those individuals who have not yet obtained their high school diploma or GED. This new procedure allows the Financial Aid Office to more easily identify and document each student's ability to benefit prior to awarding financial aid each semester.

A5-3 Financial Need

Financial need is the difference between the student's cost of attendance and the student's ability to pay those costs. The center analyzes and determines each student's need as follows:

Cost of attendance	XXX
Less expected family contribution	(XXX)
Less other resources	(XXX)
Financial need	XXX

The cost of attendance is an estimate of the student's educational expenses for the year. The cost of attendance includes expenses such as tuition and fees, room and board, transportation, and books.

Federal regulations require the financial aid director to establish policies for determining aid awards. Regulations also require compliance with or deviation from these policies be documented in the student's file. We reviewed a sample of 20 student files to determine whether the center complied with federal regulations when awarding student financial aid. We noted the following instances where the policy was not adequately documented, and/or deviations from the policy were not documented.

The student family contribution calculation is based on several factors. One student had changes in the factors used to calculate family contribution. The center reduced the student's expected family contribution, but based on the factors that changed it should have increased. Center personnel could not explain why this error occurred. Since center records did not provide evidence for us to determine if the appropriate family contribution was used, we question the $1,853 of Stafford loan (CFDA #84.032) received by the student in fiscal year 1991-92.

During fiscal year 1992-93 the center granted Carl Perkins (CFDA #84.048) funds as direct tuition assistance to students. The center set up a policy outlining qualifications for these grants. One qualification stated a student cannot receive any Job Training Partnership Act (JTPA) or Vocational Rehabilitation (VocRehab) money. One of the four students who received these direct tuition grants received JTPA late in the second semester. The center did not reduce the amount of Carl Perkins grant or document why the student was treated differently than the established policy. We question $500 of Carl Perkins funds in fiscal year 1992-93.

In addition, we noted seven other instances in which a student's financial need was not adequately documented in the student aid files. Although the file documentation did not comply with federal regulations, we determined the seven students were eligible and did not receive excess aid.

The center should document all policies and any deviations from those policies in the student files as required by federal regulations. Center personnel stated the center's two financial aid staff are frequently interrupted while working on student files. As a result, the documentation is sometimes overlooked. The center should consider procedures such as checklists and standard change forms to ensure documentation remains current with changes in the file.

<u>Recommendation #A5-3</u>

We recommend the Billings Vocational-Technical Center establish procedures to ensure the application of financial aid policies are properly documented in student files.

<u>Response #A5-3</u>
We concur. The Center has implemented procedures in FY94 where the Student Affairs Offices have two hours of uninterrupted time to properly document student files and other record keeping activities. The Financial Aid Office has also implemented staff documentation training sessions that will be continued annually or as new changes occur.

Federal Compliance

The Great Falls Vocational-Technical Center (center) participated in federal student financial aid programs. In addition to these programs, the center received several federal education grants. Federal audit standards require our report to disclose federal compliance issues identified during the audit. The following section discusses ways to improve management of cash used in federal programs.

A5-4 Cash Management

The center requests cash from the U.S. Department of Education to finance disbursements and expenditures for its student financial aid programs and a grant for placement of individuals with disabilities, Project Bridge (CFDA #84.078). The cash draws are made through an electronic funds transfer system. Federal guidelines require the center to disburse funds received through this system within three working days of receipt.

We reviewed the center's cash draw and disbursement activity for the Project Bridge and Pell (CFDA #84.063) grants from August through December of fiscal years 1991-92 and 1992-93. The center experienced both excess and negative cash balances for these programs during the period tested. The table below outlines the number of days the center had excess or negative cash balances and the maximum negative cash balance identified for each month tested.

Great Falls Vocational-Technical Center
Disbursement of Federal Cash Draws

Grant Program	Draw Amount	Excess Cash Days During Month	Negative Cash Days During Month	Maximum Negative Cash Amount
Federal Project Bridge (CFDA #84.078)				
Federal Fiscal Year 1991 Projects:				
August 1991	$ 12,000	25	0	$ 0
September 1991	0	16	14	978
October 1991	24,350	4	27	6,274
November 1991	0	30	0	0
December 1991	0	31	0	0
Federal Fiscal Year 1992 Projects:				
October 1991	0	0	31	5,669
November 1991	7,200	0	30	9,464
December 1991	11,251	0	23	5,912
August 1992	16,328	26	0	0
September 1992	0	30	0	0
October 1992	0	31	0	0
November 1992	8,942	30	0	0
December 1992	0	31	0	0
Federal Fiscal Year 1993 Projects:				
October 1992	0	0	22	4,184
November 1992	11,057	22	8	6,845
December 1992	12,586	11	20	342
Pell Grant (CFDA #84.063)				
October 1991	222,123	0	2	234
November 1991	44,000	4	26	188
December 1991	0	31	0	0
October 1992	0		3	111,075
November 1992	257,580	1	29	111,075
December 1992	0	0	31	515

Source: Compiled by the Office of the Legislative Auditor.

We reviewed the center's total federal cash balances to determine if state or federal moneys were used to finance expenditures when Project Bridge and Pell program cash was negative. During October 1992, the center had a net negative cash balance

for all federal programs for six days. By not drawing federal moneys, the center used state funds to pay expenses of the federal programs for this month. For the remaining months reviewed, other federal programs, primarily Carl Perkins (CFDA #84.048), had excess cash balances. The center borrowed from these federal programs to cover Pell and Project Bridge expenditures. We discussed Carl Perkins cash management on page A-24.

Excess federal cash was an issue addressed in the center's previous three audit reports. Center personnel implemented new cash draw procedures in response to the prior audit recommendation. The center designed a cash draw worksheet to document cash receipts. The center also changed the timing of cash requests to coincide with the biweekly payroll expenditures. Center personnel indicated these procedures did not prevent excess and negative cash balances for the following reasons.

The U.S. Department of Education requires the center to complete a quarterly federal cash transactions report. During the months tested, the center did not submit the report in a timely manner. Because the U.S. Department of Education does not authorize cash draws unless the report is submitted, the center incurred negative cash balances for certain federal programs. To prevent negative cash balances from occurring, center personnel began requesting draws in excess of the center's immediate cash needs.

Prior to the completion of our audit, center personnel changed the center's cash draw procedures to provide for compliance with both federal regulation and state law. Center personnel improved the cash draw worksheet to provide adequate documentation of cash draw activity. Center personnel now request cash draws to cover immediate payroll needs and outstanding claims only. In addition, center personnel review cash balances in federal accounts on a daily basis.

Recommendation #A5-4

We recommend the Great Falls Vocational-Technical Center continue to use newly established cash draw procedures to ensure compliance with state and federal laws and regulations.

Response #A5-4
Concur. The Center continues to follow the procedures established during the Legislative Auditor's on site visit and will continue to do so.

Federal Compliance

The Helena Vocational-Technical Center (center) participated in the following federal student financial aid programs: Pell Grants (CFDA #84.063), Stafford Loans (CFDA #84.032), College Work-Study (CFDA #84.033), Supplemental Educational Opportunity Grants (CFDA #84.007), and State Student Incentive Grants (CFDA #84.069). Federal audit standards require our report to disclose all federal compliance issues identified during the audit. The following paragraphs describe a federal cash management issue identified at the center.

A5-5 Cash Management

The center requests cash from the U.S. Department of Education to finance disbursements and expenditures for its student financial aid programs. The cash draws are made through an electronic funds transfer system. Federal guidelines require the center to disburse funds received through this system within three working days of receipt. When the funds are received by the center they are recorded in a central pool. The money is then distributed to the appropriate federal fund, where it is expended.

We reviewed the center's cash draw and disbursement activity for the central pool and Federal Work-Study (FWS) payroll pool for selected months during fiscal year 1992-93. The center experienced both excess and negative cash balances for these accounts during the period tested. The table below outlines the number of days the center had excess or negative cash balances

and the maximum negative cash balance identified for each month tested.

Helena Vocational-Technical Center
Disbursement of Federal Cash Draws
During Fiscal Year 1992-93

Federal Account	Draw Amount	Excess Cash Days During Month	Negative Cash Days During Month	Maximum Negative Cash Amount
Central Pool				
August 1992	$119,339	9	22	$12,431
September 1992	5,761	23	7	6,053
October 1992	0	0	31	13,837
November 1992	144,419	18	12	4,646
March 1993	37,955	1	30	7,895
CWS Payroll Pool				
August 1992	0	0	31	15,231
September 1992	18,812	0	30	17,561
October 1992	6,553	4	27	4,091
November 1992	7,995	0	30	5,112
December 1992	9,435	1	30	7,775
March 1993	10,175	1	30	1,028

Source: Compiled by the Office of the Legislative Auditor.

We reviewed the center's total federal cash balances to determine if state or federal moneys were used to finance expenditures when the central and FWS payroll pool cash was negative. For eight days during February 1993, the center had a net negative cash balance for all Restricted Fund activity combined. By incurring expenditures when Restricted Fund cash is negative, the center used state funds to pay expenditures of the federal programs. By drawing federal funds as needed to pay program expenditures, the center can ensure non-General Fund money is used prior to General Fund money as required by section 17-2-108, MCA. For the remaining months reviewed, other federal programs, primarily Carl Perkins (CFDA #84.048), had excess cash balances. The center borrowed from these programs to cover expenditures for the programs with negative cash balances.

Center personnel stated they were instructed in a federal training class to keep immaterial excess cash balances and use them as soon as possible. Center personnel also indicated that they use any excess cash balance to cover their biweekly work study payroll. They stated the longest time funds would be held would

be two weeks. As the table above shows, there were instances where significant cash balances were held longer than two weeks in the central pool. Center personnel should request cash draws to cover immediate cash needs and minimize the use of state funds. Center personnel should perform regular reviews of cash draw documentation to ensure established procedures meet state and federal laws and regulations.

Because the center records all federal cash draws in a central pool and then distributes the funds to the appropriate federal account, extra time and effort is spent recording, analyzing, and redistributing federal funds. The center should compare the efficiency of using this central pool with directly recording these federal funds in the individual program accounts. Methods used by other centers and university units can facilitate the comparison.

Recommendation #A5-5

We recommend the Helena Vocational-Technical Center:

A. Establish procedures to ensure cash draw procedures meet state and federal laws and regulations.

B. Analyze the efficiency of procedures used to record the receipt of federal funds.

Response #A5-5

A. We concur. HVTC is in the process of revising procedures to ensure the acquisition and expenditure of Federal Financial Aid funds within the three working days requirement. This revision will be made during FY94 and fully implemented during FY95.

B. We concur. HVTC will review the use of a Central Pool for the Federal Financial Aid Programs. Procedures utilized at the other Vo-Tech Centers will be compared, and revisions will be implemented for FY 1995.

A5-6 Federal Work-Study Expenses

The center participates in the Federal Work-Study (FWS) program (CFDA #84.033). In both fiscal years of the audit period, center personnel recorded a portion of FWS expenses in the following fiscal year. As a result, FWS expenses for the center are understated by $5,547 in fiscal year 1991-92 and overstated by $2,141 in fiscal year 1992-93 in the Restricted Fund.

Federal regulations prohibit program participants from using funds allocated or reallocated for an award year to meet FWS wage obligations incurred with regard to FWS employment in any other award year. In the regulations, an award year is defined as the period of time from July 1 of one year through June 30 of the following year. Since the center recorded FWS expenses incurred prior to July 1 against the allocation of the following fiscal year, we question $8,873 of FWS expenses recorded in this manner.

Center management said the FWS expenses for summer session were deferred because eligibility of these students was based on enrollment for the fall term. Federal regulations state students are eligible upon enrollment and allow each institution to determine its academic year for purposes of tracking aid given to each student. However, federal regulations clearly tie the expenditure of funds to the award year.

Recommendation #A5-6

We recommend the Helena Vocational-Technical Center record Federal Work-Study expenditures in compliance with state and federal regulations.

Response #A5-6

We concur. HVTC will no longer defer any FWS payroll expenditures on SBAS. All expenditures will be recorded to the current fiscal year which will correspond with the award year. Implementation will be made immediately during FY 1994.

B1-1 Transaction Support

In fiscal year 1990-91, we identified three instances where SBAS transactions lacked sufficient supporting documentation to explain the basis for expending state and federal funds. The unsupported transactions total $664, of which $71 is federal funds. Accordingly, we question $71 of federal costs for computer software and minor tools charged to the Department of the Interior programs (Wildlife Restoration CFDA #15.611 and Sport Fish Restoration #15.605).

State accounting policy stipulates that all SBAS transactions should originate from documentation which properly and adequately supports the transaction details. This source documentation is necessary in order to determine the reasonableness and accuracy of the transaction. Errors and irregularities may occur and remain undetected without sufficient support documentation.

Department personnel stated a seasonal employee who is no longer with the department checked out the supporting documents from the files. Department personnel could not locate the supporting documents, and thought the documents may be misfiled. However, the department was unable to provide support for the transactions. A similar issue was addressed in our prior audit report.

Recommendation #B1-1

We recommend the department ensure adequate written documentation exists for all transactions processed on the state's accounting records in accordance with state policy.

Response #B1-1
Concur. The department agrees that all SBAS documents should have adequate supporting documentation. We believe there are adequate controls in place to assure this happens.

Federal Compliance

The department spent approximately $30 million and $41 million in federal assistance moneys in fiscal year 1990-91 and 1991-92, respectively. The federal government provides assistance for administration of the unemployment insurance and emergency unemployment benefits (CFDA #17.225), job service programs (CFDA #17.207), and various other job training programs (CFDA #17.250). The following report sections discuss issues related to the use and reporting of federal funds.

B2-1 Unallowable Costs Charged to Federal Programs

During our audit we found the department is charging federal programs for total expenditures of some job service office buildings regardless of whether all space is being used by the job service office.

During fiscal year 1990-91 and 1991-92, approximately nine job service offices rented out portions of their buildings to other divisions of the department and the State Compensation Mutual Insurance Fund. The department receives revenue for these rentals for reimbursement of expenditures including rent, utilities, repair and maintenance, contracted services, and telephone charges. The department includes nine job service office total building expenditures in the cost distribution system which distributes costs to various federal programs. In fiscal year 1990-91 the revenues received for the rentals were not counted as program income or netted against federal expenditures.

Federal regulations require that all costs charged to federal programs must be necessary and reasonable for proper and efficient administration of the grant programs and must be net of all applicable credits. Federal regulations do allow the department to charge federal programs for the cost of space in privately or publicly owned buildings used for the benefit of the federal program. The department, however, is charging federal programs for operational costs for portions of the buildings not used for the job services and not benefiting the federal programs. As a result, several federal programs have been charged for unallowable costs.

In fiscal year 1990-91 the department received $62,047 of revenue related to rental of the job service offices. Since the majority of job service office expenditures are charged to federal programs, we estimate $60,379 of unallowable costs have been charged to the following federal programs and we question the allowability of the costs.

Schedule of Unallowable Costs Charged to Federal Programs Fiscal Year 1990-91

Program CFDA#	Name	Amount
17.207	Wagner Peyser	$28,771
17.801	Disabled Veterans Outreach Program	1,638
17.804	Local Veterans Employment Representative	2,879
17.225	UI Base	9,617
10.551	Food Stamps	1,495
*17.250	World of Work	267
17.245	Trade Adjustment Assistance	205
17.207	Targeted Job Tax Credit	714
17.203	Labor Certification	223
10.551	Project Work	2,842
*17.250	JTPA II	8,625
17.246	EDWAA	1,049
17.250	JTPA Title II	1,092
93.021(A)	Jobs	962
TOTAL		$60,379

*subgrants received from state agencies

(A) Reported under 93.561 on the Schedule of Federal Financial Assistance

Source: Compiled by the Office of the Legislative Auditor

For fiscal year 1991-92 the department excluded the amount of rental income received from the amounts charged to federal programs.

Department personnel stated they have other costs that could be charged to the federal programs that offset the unallowable charges. The department should determine if additional allowable costs exist and, if so, these costs should be charged to federal programs. Only allowable costs that directly benefit federal programs, such as the portion of buildings used by the job

service offices, should be charged to the federal programs (see related report section on page B-12).

Recommendation #B2-1

We recommend the department:

A. Only charge allowable expenditures to federal programs.

B. Determine if additional costs exist to charge federal programs.

Response #B2-1

A. Concur. The department has charged only allowable expenditures to federal programs.

B. Partially concur. The department has already done this and provided the following information to the auditors. The department did determine that additional costs exist to charge federal programs. In fiscal year 1991 the department received $62,047 of revenue related to rental of the Job Service Local Offices. Although the majority of Job Service Office expenditures are charged to federal programs, the Unemployment Insurance Administrative Fund Tax (Admin Tax) supplemented these same federal programs $602,302 in fiscal 1991. The $62,047 is more than offset by the supplementation. Therefore, there seems to be no value in going back to fiscal year 1991 and adjusting the federal reports to reflect that the rental costs should be less and other operating costs should be more with the net effect being zero. This is especially true since the adjustments would not have an affect on federal reports.

The department has modified its internal accounting procedures to more clearly account for rental activity.

B2-2 Emergency Unemployment Compensation Act

The Emergency Unemployment Compensation Act (EUCA) is a federal program (CFDA #17.225) passed by Congress in November 1991 to increase the number of weeks people could receive unemployment benefits. In the eight months of fiscal year 1991-92 that EUCA was in effect, the department paid $10,345,326 of additional benefits. To be eligible for EUCA benefits, individuals provide written evidence of a systematic and sustained effort to obtain work for each benefit week.

During our audit we found the department does not have adequate procedures for reviewing work search documentation to ensure compliance with federal and state requirements. In addition, the department issued warnings to people who were not eligible according to federal regulations because of inadequate work search documentation, yet the individuals still received benefit payments. These issues are discussed in the following two sections.

Warning System

In January of 1992, the department developed procedures to issue a warning rather than withhold payments to individuals who submit work search documentation that is not in compliance with state and federal regulations. Department personnel estimated that less than 10 percent of the estimated 40,000 work search documents submitted by individuals and reviewed during fiscal year 1991-92 were given warnings. Originally a warning was issued for each type of error made in work search documentation. Department personnel believe that some claimants received more than one warning for the same type of error. In May 1992 the department began issuing only one warning which included instructions on all federal and work search requirements.

Federal regulations do not provide for a warning system. In fact, the federal regulations state that "an individual shall be ineligible for EUCA benefits the week the individual fails to conduct the required search for work. . ."

The individual's ineligibility continues until they get a job, earn four times their weekly benefit amount in four separate weeks, and are separated from that employment through no fault of

their own. According to department personnel, the warning system was established because of the severity of the consequence of inadequate work search. The department wanted to make sure claimants were not cutoff because of clerical mistakes. To comply with federal regulations, the department should stop issuing warnings and pay EUCA benefits only to eligible individuals.

Lack of Procedures

We found the department does not have procedures for EUCA work search documentation review performed at the Unemployment Insurance (UI) division headquarters. For example, we found one out of thirty claims tested where an individual received benefits although their work search documentation contained work search contacts with the same two employers within a two-week period. State regulations do not allow repeated contacts with the same employer within a two-week period. The person was not declared ineligible and received $386 of benefits for the week in which the repeated contacts were made.

Federal regulations require, at a minimum, evidence be obtained that includes a list of the number of employer contacts the state has determined to be evidence of a sustained search for work during such weeks. The state defines a sustained effort for Montana residents as at least two work search contacts every week and repeated contacts with the same employer within a two-week period are not acceptable.

Department personnel said the error was overlooked by the person reviewing the documentation and could be the result of the many people involved in the work search review process and the lack of any written procedures. The department should provide training and develop written procedures to ensure the work search documentation review is in accordance with state and federal regulations.

Recommendation #B2-2

We recommend the department:

A. Pay EUCA benefits only to eligible individuals.

B. Develop written procedures for review of work search documentation.

C. Provide additional training to employees to ensure the department complies with federal and state regulations related to EUCA.

Response #B2-2

A. Concur. Congress passed the Emergency Unemployment Compensation Act in November of 1991 effective immediately upon passage. States were told to issue benefits as quickly as possible even though federal rules and guidelines were issued after the initial implementation and continued to change for the next 6 months. Initially, states were allowed to waive worksearch requirements when claims were backdated because of the rapid start-up. Claimants were not to be penalized when they did not have proper notice of the requirements. There was a great deal of discussion among states and at the national level on what constituted "systematic and sustained" worksearch. In the beginning, States were told to come up with their own definition based on local labor market conditions. In February, of 1992, USDOL issued an interpretation stating claimants must look for work on two separate days of the week. It was very difficult for Montanans in rural areas to drive in up to 100 miles in the winter to look for work on two separate days rather than making 5 or 6 contacts in one day.

The Unemployment Insurance Division issued warnings primarily because:

1. The claimant conducted two or more work searches on the same day rather than on two separate days of the week.

2. The claimant wrote the wrong month, day of the week or year.

3. The claimant made a duplicate contact with the same employer without explanation. Usually one contact was a job search and the next was an interview or a call back in the second week of the claim period which would be acceptable.

4. The claimant stated the contact occurred on Saturday rather than Sunday when the claim period begins.

The Division generally issued warnings when the claimant had misunderstood worksearch requirements or made an obvious clerical error on the form. Warnings were never issued when it was clear the claimant was trying to subvert the intention of EUCA by not looking for work.

The consequence of worksearch error on the worksearch form is what is called a 4 X 4 disqualification. The claimant is disqualified from receiving EUCA until they get a job, earn 4 times their Weekly Benefit Amount in 4 separate weeks and are separated from that employment through no fault of their own. Because of the severity of the consequence, the Division wanted to make sure claimants were not cut off because of the claimant's clerical mistakes.

However, based on concerns listed in the audit, we now issue a letter to all claimants reminding them of the consequences of errors and letting them know that their benefits will be cut off if the worksearch form is not completed properly. We also send each new claimant a packet outlining the requirements. This is in addition to the Benefits rights and responsibilities explanation, they receive at the Job Service local offices.

Current federal EUCA worksearch requirements will be suspended at the federal level as of March 6, 1993. EUCA is expected to continue through October, 1993. Montana UI worksearch requirements will then govern availability. In the last year and one-half, USDOL has conducted two federal reviews of Montana's emergency benefits program; neither have cited the process we use for EUCA worksearch as a problem.

B. Concur. Written policies are available in the local office manual, the claimant guide and in memos. On January 8, 1993, the UI Division wrote a memo to staff reminding them of the proper procedures to verify worksearch.

C. Partially concur. The Division has an on-going commitment to training. We conducted EUCA satellite training in December, 1991 and three classroom training sessions across the state June and October, 1992. Also, we've set up several telephone conference calls and issued numerous memos. Since EUCA worksearch requirements will be suspended as of March 6, 1993, further training will not be necessary.

B2-3 Schedule of Federal Financial Assistance

Department accounting personnel prepare a Schedule of Federal Financial Assistance (SFFA) each fiscal year. The schedule shows expenditures of federal funds by type of assistance, listed according to a catalog number assigned by the federal government. Federal regulations require recipients of federal assistance to report all federal financial assistance expended each fiscal year. The regulations require the state, including the department, to accurately report the total amount of federal expenditures.

The Governor's Office compiles schedules from each state agency into a single SFFA for the state of Montana. We audit and express an opinion on the state of Montana SFFA in our biennial Single Audit report. To avoid double counting federal expenditures, the Governor's Office eliminates all subgrants of federal funds that have already been reported as federal expenditures on the SFFA. To facilitate this elimination, agencies should indicate on their SFFA federal money that is received as a subgrant that has already been reported as federal expenditures on the state's SFFA.

The department records expenditures for JTPA Title IIA (CFDA #17.250) when they subgrant money to a private corporation which subgrants some of the money back to the department. The department records expenditures again when this money is disbursed by the department to participants. The fiscal year

1990-91 SFFA, prepared by the department and submitted to the Governor's Office, includes both sets of expenditures as a direct grant. As a result, the amount reported on the fiscal year 1990-91 SFFA for JTPA Title IIA is overstated by $4,129,354.

Department personnel indicated that since they receive some of the federal portion twice, but in different roles, they believed it all should be recorded on the SFFA. To avoid overstating the SFFA for the state, the amounts subgranted back to the department should be identified on the schedule as a subgrant so it is eliminated on the single SFFA for the state. The department recorded the subgrant correctly on the fiscal year 1991-92 SFFA.

We also found the amount on the fiscal year 1990-91 SFFA for several programs did not include current year disbursements for obligations of the previous year. Department personnel indicated that the person who had prepared the fiscal year 1990-91 SFFA was no longer with the department and, therefore, could not explain why he chose not to include the prior year expenditure adjustments on the schedule. As a result, the federal programs were misstated by the amounts in the table shown below.

Prior Year Amounts Excluded from the Schedule of Federal Financial Assistance Fiscal Year 1990-91

PROGRAM	CFDA#	Misstatement
FOOD STAMPS	10.551	$ 5,465
UI BASE	17.225	2,734
WAGNER PEYSER	17.207	8,752
TITLE IIA	17.250	58,844
JTPA TITLE III	17.246	(101,420)
CURRENT UNEMP. STATS	17.002	114
LOCAL AREA UNEMP. STATS	17.002	205
OCCUPATIONAL EMPLY. STATS	17.002	104
EEOC	30.002	1,401
JOBS	93.021(A)	7,112
OSHA CONSULTATION	17.500	(2,794)
MSHA MINING	17.600	(8,690)

(A) Reported under CFDA #93.561 on the Schedule of Federal Financial Assistance

Source: Compiled by the Office of the Legislative Auditor

In addition to the misstatements discussed above, we found the following instances where the amounts reported on the SFFA were not correct:

-- The department omitted the unemployment insurance portion of the Audit Bureau's operating costs of $78,149 from the expenditure amount reported for the Unemployment Insurance Base Grant (CFDA #17.225) on the fiscal year 1990-91 SFFA. Department personnel indicated the error occurred because of a reorganization.

-- $1,152 and $1,564 in fiscal years 1990-91 and 1991-92, respectively, of JTPA Title III (CFDA #17.246) expenditures were included as JTPA Title IIA (CFDA #17.250) expenditures.

-- The amount reported on the SFFA for federal employee and ex-military UI benefit payments (CFDA #17.225) is overstated by $3,000 in fiscal year 1990-91 and understated by $136,235 in fiscal year 1991-92.

These types of errors may have been prevented or detected by review procedures of the SFFA. To ensure the accuracy of the SFFA submitted to the Governor's Office, the department should identify all federal moneys received as a subgrant on the SFFA and establish procedures to ensure the accuracy and completeness of the SFFA submitted to the Governor's Office.

Recommendation #B2-3

We recommend the department establish procedures to ensure the accuracy and completeness of the SFFA submitted to the Governor's Office.

Response #B2-3
Partially concur. The department already ensures the accuracy and completeness of the SFFA submitted to the Governor's Office by annually reconciling fiscal year end SBAS expenditures to federal accounting entities. The Unemployment Insurance (UI) benefit payments are reconciled monthly to the UI

Financial Summary federal report and the Benefit System and SBAS.

The fiscal year 1992 errors referenced in the Legislative Audit Findings were noted and corrected on internal reports and properly reported on federal quarterly reports. The department offered to file an amended report with the Governor's Office, but the auditor stated that it would not be necessary as they would take the responsibility of passing the information to the Governor's Office.

Accounting Issue

The department's financial information is used by department personnel and others to manage and establish funding levels for the department. Section 17-1-102(5), MCA, states, "All state agencies. . .shall input all necessary transactions to the accounting system. . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. . ."

In addition, the Department of Administration, Accounting and Management Support Division, establishes state accounting policy as outlined in the Montana Operations Manual (MOM). Accounting for financial activity in accordance with these requirements improves the quality, consistency, and comparability of the resulting financial information within and between state agencies. The following section discusses an instance where the department did not comply with state accounting policy and law.

B2-4 Excess Cost Allocations

The department operates central management, accounting and data processing functions and charges these operations to the department's various programs using a cost allocation plan. The department calculates the allocations from each program to central operations based on the budget of the central operations. Department personnel record the allocations paid by the programs for central operations in the Internal Service Fund.

We noted the department accounting records showed $403,393 in deferred revenue in the Internal Service Fund at June 30, 1992 which should be recorded as fund balance. According to generally accepted accounting principles, revenue should be deferred if receipts exceed the amount earned prior to the end of the fiscal year. Since the department bases the payments to the Internal Service Fund on a cost allocation plan, the payments received by the Internal Service Fund should be recognized as revenue even if the payments exceed the expenses of the Internal Service Fund. The department has deferred the excess of cost allocation payments over central operations costs over several years.

Department officials attributed the growing balance in the Internal Service Fund to a defect in the current cost allocation plan. Officials said the current plan addresses imbalances incurred through an adjustment in the following year; however, the plan did not base the adjustment on the difference between the amounts paid and expended for central operations. As a result, the annual adjustments to the cost allocation plan were not sufficient to balance allocations to the costs of central operations, the officials said. Since most program funding comes from federal sources, it appears the department has overcharged the federal government for the costs of central operations.

Department officials said the department will submit a revised cost allocation plan for approval by federal authorities in December 1992. Officials believe the new plan will make it possible to maintain a balance between allocations and costs of central operations. Department personnel should monitor allocations and make annual adjustments to balance allocations and costs. In addition, the department should record fund balance rather than deferred revenue for the differences realized in previous years.

Recommendation #B2-4

We recommend the department:

A. Monitor and adjust its cost allocations to cover actual expenses of central operations.

B. Adjust accounting records to reflect fund balance for amounts earned in previous years.

Response #B2-4

A. Concur. The department does monitor and adjust its cost allocations to cover actual expense of central operations by calculating carry forward to the following years Plan.

B. Concur. The fund balance should be recorded as such. It appears that when the Cost Allocation Plan activity was moved from the Federal Special Revenue Fund, which requires revenues and expenditures to balance, this change was missed. This does not result in an "overcharge" to the federal government since the Plan is approved and carry forward is recognized in the following year's Plan.

Computer Access Controls

In the prior audit we reviewed computer assess controls established by the department. We made a three-part recommendation to the department to address our concerns. We have determined the recommendation is partially implemented. The Department of Labor provides the majority of federal assistance for programs such as unemployment insurance (CFDA #17.225), job service programs (CFDA #17.207), and job training programs (CFDA #17.250). Discussed in the following report sections are the results of our follow-up on the status of the recommendation.

B2-5 Terminated Employees

During our review we found instances where the department did not follow established procedures to ensure terminated employees' access to systems and data is suspended in a timely manner. We also identified three instances of unauthorized access to critical applications.

We found 44 out of 49 terminated personnel still had access to systems and data two weeks after their employment ended with the department. Of the 44 people, 9 still had access at least one year after their termination. When terminated employees access to crucial applications is not suspended, unauthorized use or alteration of data and programs could occur.

For example, we found three log-on IDs were used to access critical applications after the personnel who were assigned the log-on IDs had terminated their employment with the department. Department personnel could not explain the unauthorized access, although personnel indicated the three log-on IDs have now either been cancelled, suspended, or reissued. According to department personnel, one of the three log-on IDs had been reported to the state security officer. The department should review requested changes to ensure all changes submitted to the state security officer are completed.

In the prior audit report we recommended the department develop a system to suspend computer access of terminated employees. The department concurred with the recommendation and issued policies and procedures to implement the recommendation. Department personnel did not know why the employees' access was not suspended, although two recent reorganizations and a major system conversion account for most of the problems. The department should evaluate the adequacy of current policies to ensure that terminated employees' access is suspended in a timely manner. Based on our followup for the fiscal year 1992-93 audit period, we found the department has not implemented this recommendation.

Recommendation #B2-5

We recommend the department suspend terminated employees' access to computer systems and data on a timely basis.

Response #B2-5

Concur with the recommendation but partially concur with the finding. There were clearly instances where the department was not prompt in suspending a terminated employees' access to systems and data as it should have. However, the finding is systemic in that the mainframe ACF2 security function requires a team effort between the agency and the Department of Administration. There are perhaps areas of the security program that could be refined so as not to place an undo burden on the agency security officers and yet meet the goals of the program itself. Meanwhile, the department security officer will continue random checks to ensure suspension of system and data access for terminated employees is timely.

B2-6 BEAR System Access

The department did not implement a prior audit recommendation to reprogram the Benefit Application Rewrite (BEAR) system to limit access to specific data. Unemployment insurance (CFDA #17.225) benefits are tracked on the BEAR system. This system provides for seven levels of access. The department attempts to match the access levels to employee job duties; however, each access level is cumulative, so an individual with access to the seventh level has access to all prior levels.

We reviewed a list of authorized users of BEAR and found that of 851 employees with access to the BEAR system, 249 users have access to level five and above. Some of the items that users have the ability to change at level five include pay order compensation, the amount of wages claimed in a period, or wages paid in a period.

State law requires the department to maintain the confidentiality of unemployment insurance records. Information is to be released only to authorized employees who use the information in the performance of their duties. Since, according to department personnel, the system does not limit access to the specific level, individuals have access to information which is not needed for the performance of their job. The department should limit access to specific data.

Department personnel agree that the current access system is not ideal, however, reprogramming the system is not a priority for the department because of the many programming changes necessary for federal regulations related to unemployment insurance. Department personnel estimated the cost to reprogram the system to further limit access is $19,000.

We believe that given the monetary risk of the information on BEAR and the number of people that have the ability to change key information, the department should make the programming change a priority, or determine if alternative procedures exist to ensure employees access only data screens required to perform their work. Based on our followup for fiscal year 1992-93 we found the department has not implemented this recommendation.

Recommendation #B2-6

We recommend the department either reprogram the BEAR system to limit access to specific data or establish other procedures to ensure employees access only data screens required to perform their work.

Response #B2-6

Partially concur. While we agree with the merits of this recommendation, the cost of $19,000 is extremely high. We also have a limited number of programmers who can work on the BeAR. In November of 1991, Congress passed the Emergency Unemployment Compensation which has required extensive programming. They also spent time programming provisions enacted by the 1991 Montana Legislature and fixing federally required reports

which were not correct. That left very little time for any revisions to the system.

We recently began an in depth study of our mainframe system to determine its overall adequacy. The study should provide us with recommendations on how to overcome system deficiencies, one of which is the difficulty in programming enhancements. Broader security access will certainly be part of that study. However, without further funding, we will not be able to implement this recommendation in the next two years.

Federal Compliance

The department receives federal financial assistance from the U.S. Department of Health and Human Services (DHHS) - CFDA #93.xxx, and the United States Department of Agriculture (USDA) - CFDA #10.xxx. During fiscal year 1991-92, expenditures from these agencies totalled $6,754,861 and $14,429,812, respectively. The department subgrants the majority of this assistance to local governments, primarily county governments. Federal regulations require the department to determine whether local governments, which receive subgrants of federal moneys through the department, have met the audit requirements of the United States Office of Management and Budget (OMB) Circular A-128. Failure to monitor subrecipient contracts adequately results in a lack of assurance that such contracts are properly administered. Noncompliance could result in the loss of future federal funding. During the last audit, we identified concerns about the department's compliance with subrecipient monitoring requirements. The following sections discuss concerns noted during our current review of the department's compliance with the federal requirements.

B3-1 Subrecipient Monitoring

During our audit for the two fiscal years ended June 30, 1990, we noted the department did not have an adequate system to monitor audits of local governments which receive subgrants through the department. The department concurred with our recommendation to ensure it receives subrecipient audit reports in a timely manner. In May 1991, the department established an internal policy for subrecipient monitoring and prepared a control schedule to monitor the due dates of the audit reports. However, during our audit for the two fiscal years ended June 30, 1992, we determined the department's subrecipient monitoring procedures are not consistently followed.

The audit reports for counties with audit periods documented as ending June 30, 1990, were due to the department by June 30, 1991. We noted only eight of thirty-two county audit reports had been received as of February 28, 1992. We reviewed five of these county files and found no correspondence regarding the untimely receipt of the audit reports. Eleven counties are docu-

mented on the control schedule as having a two year audit period ending June 30, 1991, but two of the eleven counties actually had audit periods ending June 30, 1990. In addition, two counties had no audit period documented; therefore, the department does not know when to expect these reports.

OMB Circular A-128 states subrecipients shall submit copies (of the audit reports) to recipients that provided the assistance. The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to by the federal cognizant agency. Also, there is a provision included in the contracts between the department and the local governments requiring timely submission of audit reports.

We discussed our concerns with department officials during the interim phase of the audit and reported these issues in our 1991 Single Audit report. Our subsequent followup identified increased concerns. As of February 3, 1993, only 16 of the 44 county audit reports due June 30, 1992, had been received by the department. Only 2 of these 16 reports have been reviewed and followup initiated. The control schedule has no indication of whether the remaining 14 reports require followup. Review of 5 county files showed no documentation of an attempt to request the missing reports.

We reviewed the current job description for the department's auditor position within the Support Services Bureau (SSB). It allocates 40 percent of the position's time toward developing and maintaining a system to ensure all the required audits are received and to review all audits for compliance with audit standards. If programmatic problems are noted in an audit report, SSB is responsible for bringing those issues to the attention of the appropriate program manager. The current auditor indicated the time allocation is unrealistic. The subrecipient monitoring control schedule is reviewed and updated as time permits; however, other internal projects keep him busy.

Title 2, chapter 7, part 5, MCA, is cited as the state Single Audit Act. The Act places the responsibility of auditing all counties, at

least every two years, on the Local Government Services Bureau (LGS) of the Department of Commerce. An audit conducted pursuant to this part is in lieu of any compliance audit that a local government is required to conduct under any other federal regulation.

However, as grantor, the department is responsible to ensure subrecipient contracts are properly administered and the required audits are conducted. The department currently has no written agreement with LGS assigning the department's responsibilities, as grantor, of the timely receipt and review of the audit reports. Department personnel stated it was their understanding that LGS was going to notify state agencies as to agency versus LGS responsibilities.

During interim fieldwork of our audit of the department for fiscal years 1992-93 and 1993-94, we determined the department has made progress in implementing a subrecipient monitoring system. However, the department needs to continue improving its subrecepient monitoring procedures.

Recommendation #B3-1

We recommend the department maintain a system to monitor the state's receipt, review, and resolution of all required audit reports and report issues, in compliance with federal regulations.

Response #B3-1
The department has a inter-agency service agreement with the Department of Commerce, Local Government Services Division to receive and review audit reports from counties receiving funding from the DHES. All county audits required to be received by July 31, 1993 have been received but one. This report has been delayed due to problems encountered by the auditors. The department is continuing to review needs to expand required subrecipient audit report reviews.

Accounting Issue

The department's financial information is used by department personnel and legislators to manage and establish funding levels for the department. Section 17-1-102, MCA, states, "All state agencies. . . shall input all the necessary transactions to the accounting system. . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. . ." In addition, state policy is outlined in the Montana Operations Manual (MOM). Accounting for financial activity in accordance with these requirements improves the quality, consistency, and comparability of the resulting financial information within and between state agencies. The following section discusses where the department did not comply with state accounting policy and law.

B3-2 Inadequate Review of Account Balances

At fiscal year-end 1991-92, the department maintained nine federal special revenue accounts with ending fund balances ranging from a negative $67,479 to a positive $6,000.

CFDA #10.557	Women, Infants, and Children (WIC)	$(67,479)
CFDA #93.283	Public Health SRF	(45,803)
CFDA #66.001	EPA Air Quality	(3,722)
CFDA #93.118	Seroprevalence	(197)
CFDA #93.994	Maternal and Child Health (MCH)	433
CFDA #66.432	EPA Safe Water	900
CFDA #66.419	EPA 106 Water	5,170
CFDA #66.458	State Revolving Fund (SRF)	5,463
CFDA #66.460	Non Point Source (NPS)	6,000

The CFDA number listed comprises the majority of federal assistance in each account listed.

State policy (MM 2-92-4) requires the fund balance in federal special revenue accounts be zero at fiscal year-end. Federal funds spent should always equal federal revenues. Any unspent revenue balance or advance should be deferred and revenue for amounts spent but not yet reimbursed by the federal government should be accrued.

Department personnel said the reasons for the errors that resulted in the ending fund balances is the large number of accounting entities the agency has and the lack of adequate personnel during the audit period to account for the entities. The department should perform a supervisory review of account balances to ensure federal activity is recorded in compliance with state accounting policy.

Recommendation #B3-2

We recommend the department review account balances to ensure financial activity in its federal special revenue accounts is recorded in accordance with state accounting policy.

Response #B3-2
This recommendation has been completely implemented as of September 22, 1993.

B3-3 Other Accounting Errors

During the audit we found several accounting errors within the federal Public Health special revenue account. The following two sections describe the errors.

Properly Recording Revenue Sources

The department has an inter-agency service agreement with the Department of State Lands (DSL). The department appoints a water quality specialist who is specifically responsible for the review of water quality control and monitoring requirements of the Montana Metal Mine Reclamation Act and DSL rules adopted pursuant to that Act. This activity is not related to the Federal Public Health Act. DSL reimburses the department a percentage of the specialist's salary, benefits and indirect costs from its general fund and state special revenue fund sources. The department recorded the expenditures and related reimbursement of $16,107 and $22,342 in the federal Public Health account for fiscal years 1990-91 and 1991-92, respectively.

State policy defines a federal special revenue fund as a fund consisting of money deposited from a federal source that is used for the operation of state government. The reimbursement under this agreement is not federal money and should not be recorded in the federal account.

Accounting Errors

We reviewed two transactions which improperly recorded revenue in the federal Public Health account. The first transaction originally deferred unspent federal revenue at fiscal year-end 1991-92. The deferral was reversed by mistake. Rather than re-establishing the deferral, personnel incorrectly recorded a receivable and the related revenue. This resulted in the revenue being recorded twice for an overstatement of $6,022.

The second error added two federal disabilities prevention project amounts, recording a $3,110 receivable, rather than netting the two amounts and deferring $361 in unspent revenue. This resulted in a revenue overstatement of $2,749. Together, the two accounting errors overstate revenue by $8,771 in fiscal year 1991-92.

Also, the federal Public Health account had a balance of $5,684 in Property Held in Trust (PHIT) at June 30, 1992. State policy defines PHIT as the value assigned to property held by the department in a trustee capacity. Accounting personnel said $462 is cash remaining from a contract that the department does not have to pay back. The origin of the remaining $5,222 PHIT could not be explained.

Accounting personnel refer to the federal Public Health account as a catch-all account with several miscellaneous projects recorded in it. The department should track the activity of the several projects and ensure accuracy of account balances.

Recommendation #B3-3

We recommend the department analyze and correct the account balances in the federal Public Health account.

Response #B3-3
Compliance with this recommendation is in process. Full implementation is expected by June 30, 1994.

Electronic Data Processing

The Department of Health and Environmental Sciences operates its Women, Infants, and Children (WIC) (CFDA #10.557) program computer system on the state's mainframe computer. The application maintains client records of individuals participating in the program, accounts for food vouchers issued to clients, and provides program statistics.

We reviewed general and application controls over the WIC computer system. We examined general controls to determine whether the WIC application operates within an effective control environment. Based on our findings, we determined overall general controls are not sufficient to ensure the integrity of the WIC application. We identified the following general control concerns related to access and physical security.

We also performed a limited review of application controls to evaluate the adequacy and accuracy of data processed by the WIC application. Our application control findings are discussed beginning on page B-31.

Access Controls

The department uses a mainframe computer software package called Access Control Facility-2 (ACF2) to provide control over electronic access to programs and data stored on the mainframe computer. ACF2 limits access through electronic rules which allow or prevent user access. Agency security officers are

required to write rules using ACF2 to identify who is permitted to access which libraries, and who uses specific billing numbers.

ACF2 software requires WIC personnel to enter a valid logon identification number, password, and billing account number. We reviewed access controls in place over the WIC mainframe computer application. The following two sections discuss our concerns regarding access controls.

B3-4 Inadequate Access Controls

We determined the ACF2 security rules do not limit or record programmer access to WIC production programs and datafiles. In addition, department personnel do not review ACF2 reports for unauthorized access. Access to production programs and datafiles allows programmers to make unauthorized changes to computer systems. The potential exists for unauthorized and untraceable manipulations of critical information.

Electronic data processing (EDP) guidelines suggest agency managers limit program and data file access to persons requiring access for their job duties. In addition, Montana Operations Manual (MOM) 1-0250.00 states each department head is responsible for assuring adequate security for data and information technology resources within the department. Programmer access should be restricted to test programs and files needed for a given assignment. If a programmer is allowed access to production programs or data files, the access should be logged and closely monitored.

The department security officer believes programmer access to production programs and datafiles is necessary for job performance. However, programmer duties can and should be completed using test programs and datafiles. In addition, the security officer should review ACF2 reports to monitor user access for unauthorized activity. Since security officers have full access to all programs and data, we believe an independent review should be performed.

We also determined security rules do not prevent unauthorized use of WIC billing account numbers. As a result, the WIC program could potentially be billed for unauthorized mainframe

computer processing charges. The department security officer and WIC program personnel should review ACF2 reports to monitor user access and use of billing account numbers. A WIC program official stated he would like to review ACF2 reports to monitor use of billing account numbers.

Recommendation #B3-4

We recommend the department implement procedures to:

A. Monitor programmer access to production programs and datafiles.

B. Prevent unauthorized use of WIC program billing account numbers.

C. Review ACF2 reports for unauthorized access to system programs and billing account numbers.

Response #B3-4
This recommendation was implemented on April 19, 1993.

B3-5 Timely Suspension of Logon IDs

We reviewed the department's mainframe logon IDs to determine whether they are assigned to current WIC mainframe users. Of ten WIC users tested, we noted two contracted personnel logon IDs were not suspended upon termination. We determined the department suspended access for one logon ID four months after termination. On January 26, 1993, the department security officer suspended access for the second logon ID after we brought it to his attention, but the contract expired June 30, 1992. ACF2 records indicate someone had used the logon ID since the time the contract expired. The login ID has access to WIC datafiles and could be used to make unauthorized changes.

By not suspending logon IDs upon employment termination, the department increases its risk that unauthorized persons will access sensitive information and make inappropriate changes to WIC programs and data. The department should suspend logon

IDs when an employee terminates to maintain an acceptable level of security over computer systems.

The department security officer indicated he was not notified when the two contract personnel were terminated. The department should develop policies and procedures for notifying the security officer upon contract personnel termination.

Recommendation #B3-5

We recommend the department implement procedures to suspend mainframe logon IDs upon contract personnel termination.

Response #B3-5

This recommendation is in the process of being implemented. Draft polices and procedures have been prepared. Data Processing staff is working with the department's personnel office to develop an efficient system to notify the security officer of employee terminations. No date for full implementation has been established.

Physical Security

Physical security controls provide security against accidental loss or destruction of records and ensure continuous operation of the Electronic Data Processing (EDP) function. Physical controls include safeguarding files, programs, and documentation from loss due to theft, disaster, or malicious acts. We reviewed physical security controls in place over the WIC mainframe computer application. The following two sections discuss our findings related to physical security.

B3-6 Disaster Recovery Plan

Disaster recovery procedures provide for restoration of operations after a physical disaster or hardware failure has taken place. We determined the department does not have a disaster recovery plan for the WIC mainframe application. In addition, the department does not have formal procedures to recover the WIC system and user documentation. If a disaster occurs, the department would be unable to process certification records or account for vouchers issued to clients.

Management should maintain adequate written recovery procedures to ensure efficient system recovery from either short-term interruption or major catastrophe. MOM section 1-0240.00 outlines agency responsibilities regarding disaster recovery planning. These include assigning recovery team member responsibilities; assessing information and resource requirements necessary to maintain the application; and determining alternate procedures if recovery cannot be completed timely. Documented and tested recovery procedures allow normal operations to resume as quickly as possible following a disaster. Without a formal documented disaster recovery plan, department personnel may be unable to efficiently recover the WIC application.

A WIC program official indicated disaster recovery procedures for the application are the responsibility of Department of Administration. However, Department of Administration is only responsible for recovery of the mainframe computer. The Department of Health & Environmental Sciences is responsible for recovery of the WIC application. The department should define team member assignments, application requirements, alternate procedures, and provide for recovery of system and user documentation.

Recommendation #B3-6

We recommend the department develop a disaster recovery plan for its WIC application, in accordance with state policy.

Response #B3-6
This recommendation was taken into consideration during contract negotiations for the new WIC computer system. Full implementation is expected prior to June 30, 1994.

B3-7 Internal Security Evaluations

Section 2-15-114, MCA, specifies each department head is responsible for an adequate level of security over data within the department and implementing appropriate cost-effective safeguards to reduce, eliminate, or recover from identified threats to data. The statute also requires department officials ensure internal evaluations of the security program for data and information technology resources are conducted.

A comprehensive internal security review includes a detailed analysis of general and application controls in place over data processing functions. In November 1992, the department drafted internal security policies and procedures. The department could have prevented or corrected many of the audit issues we identified by implementing formal internal security policies and procedures.

Recommendation #B3-7

We recommend the department implement policies and procedures to ensure security over computer data and information resources in accordance with state law.

Response #B3-7
This recommendation has not been implemented due to lack of data processing staff.

Application Controls

Local WIC agencies determine applicant eligibility, manually issue food vouchers to eligible participants, and report caseload information to the department in Helena. Department personnel enter data received from local clinics to the WIC computer system. The system maintains certification records for client participation in the food supplement program, accounts for issued and paid vouchers, and reports program statistics.

We performed a limited review of application controls in place over the WIC computer system. We reviewed input controls to determine whether client certification forms and food voucher logs were properly authorized and input to the system. We reviewed processing controls to determine whether food vouchers were processed completely and accurately. Finally, we reviewed output controls to determine if food vouchers were properly reported on system reconciliation reports. We also reviewed application documentation and the audit trail. The following sections discuss our findings regarding application controls.

B3-8 Error Resolution Correction Procedures

The department processes weekly edit reports which identify differences between the value of vouchers issued and actual redeemed value. Department personnel send edit reports to local clinics once each month and allow clinics 30 days to investigate and resolve differences greater than five dollars. Clinics identify differences as store, clinic, or keypunch errors. Store errors occur when a store redeems a voucher in excess of its issued value. Clinic errors occur if clinic personnel incorrectly record vouchers issued on daily log sheets. Keypunch errors result when department personnel improperly enter daily log sheet data to the computer system. If the difference is a store error, the department initiates collection from the vendor. Keypunch and clinic errors are noted as such, but the correct information is not re-entered into the system.

We tested 30 food vouchers issued in November 1992, and found 7 vouchers were reported on weekly edit reports. Department personnel had not resolved these errors as of January 28, 1993. A WIC program official indicated several local WIC agencies operate on a quarterly schedule, per contract agreement. As a result, the clinics may not resolve differences until five months after a voucher is issued. The department should implement procedures to review and resolve food voucher errors. The errors should be corrected. Unless corrected, the information on the WIC application does not support the information on the state's accounting records.

EDP guidelines suggest management review and control the correction and resubmission of all errors detected by an application system. The department's current procedures could allow clients to redeem vouchers for up to five months before store, clinic, or keypunch errors are resolved.

Recommendation #B3-8

We recommend the department establish procedures to document and reconcile application errors.

Response #B3-8

This recommendation is being addressed by the new WIC computer system. When this system is fully operational, this recommendation will be completely implemented.

B3-9 Plan to Replace Current System

Based on our WIC application findings, we determined overall general and application controls for the current WIC program are not adequate to ensure application integrity. We found the department does not have adequate electronic access controls, disaster recovery procedures, formal security procedures, and adequate application controls for the current application. The department has written a request for proposal to replace the current WIC computer system. The department should address these issues when developing the proposed computer system.

The proposed system aims to improve services, increase local agency efficiency, improve accountability, and provide more accurate and useful management information. Department personnel indicated the proposed computer system will decentralize user responsibility by shifting input duties to local clinic offices.

Without careful planning, decentralizing the WIC application could increase general and application control weaknesses. EDP guidelines suggests the department follow a systematic development approach for the proposed system. This process includes but is not limited to:

-- Independent review of the proposed system during critical stages of development.

-- Review and approval of written specifications by appropriate management and application users.

-- Users should be involved during system testing.

-- Department management should obtain final approval prior to placing the system into operation.

-- All master file and transaction file conversions should be controlled to prevent unauthorized changes.

-- Management should document all policies and procedures associated with implementation and maintenance of general controls.

Recommendation #B3-9

We recommend the department follow a systematic development approach for the proposed WIC computer system.

Response #B3-9
A new system is currently being developed. Concerns noted in the audit report were taken into consideration during the design of the new system. When the new system is in place, this recommendation will be considered fully implemented.

B4-1 Indirect Costs

State agencies are required by section 17-3-111, MCA, to negotiate indirect cost rates in accordance with federal regulations and recover indirect costs of federal assistance programs to the fullest extent possible.

The last federally approved indirect cost rate negotiated between the National Endowment for the Arts (NEA) and the council was effective through December 31, 1990. The NEA told the council to submit an updated indirect cost proposal based on the council's audited financial statements for the year ended June 30, 1990 as soon as possible. Furthermore, indirect costs were not to be charged or budgeted after December 31, 1990 on grants, contracts or applications unless a new proposal had been submitted.

During the audit period, the council used the expired fiscal year 1988-89 indirect cost rate in their applications for federal funding. When the NEA awarded grant funds for fiscal year 1992-93, the council was notified it was "imperative" they renegotiate a new rate prior to June 30, 1993. The council did not submit a new indirect cost proposal until July 1993. The council used the proposed rate, which had not yet been approved by the NEA to calculate federal indirect costs for fiscal year 1992-93. The council charged indirect costs of $9,965 to the federal grants.

Council management said they did not negotiate a new indirect cost rate earlier because they did not receive a copy of the fiscal year 1989-90 statewide indirect cost allocation plan, which is the basis for the indirect cost rate, until August of 1991. Also, council personnel stated the fiscal year 1989-90 financial statements were not audited until the spring of 1992.

Once the audit report including fiscal year 1989-90 was issued, the council should have negotiated an indirect cost rate and thus would have been in compliance with the NEA requirement to negotiate a new indirect cost rate prior to the end of the fiscal year 1992-93 grant period. The council should not have used the expired indirect cost rate in its grant applications, nor, should it have recorded the $9,965 of indirect costs based on an

unapproved rate. We therefore question a total of $9,965 of indirect costs on NEA grants as shown below.

Schedule of Questioned Costs

Promotion of Arts	CFDA #	Amount
State and Regional Programs	45.007	$8,608
Local Programs	45.023	$ 535
Expansion Arts	45.010	$ 340
Folk Arts	45.015	$ 264
Arts in Education	45.003	$ 218

Source: Compiled by OLA from council records.

Recommendation #B4-1

We recommend the council promptly negotiate indirect cost rates with the federal government in order to recover indirect costs to the maximum extent possible as required by state law.

Response #B4-1

Concur. The council submitted paperwork for the indirect cost negotiation on July 17, 1993. On February 7, 1994, we received the NEA's indirect cost proposal. We are communicating with them regarding the proposal and will submit the next round of paperwork within 90 days.

Department of Natural Resources and Conservation

Compliance with Federal Regulations

The department receives federal financial assistance from several federal departments. We performed tests to determine the department's compliance with applicable federal regulations. We identified concerns which are discussed in the following two report sections.

B5-1 Untimely Federal Reports

The state of Montana receives oil overcharge Petroleum Violation Escrow (PVE) moneys (Catalog of Federal Domestic Assistance [CFDA] #81.999) as the result of the settlement of various federal lawsuits against petroleum companies. The department administers the programs funded by these PVE moneys. Federal regulations require the department to prepare and submit a report each year within 90 days after the end of the state fiscal year describing the projects and expenditures financed with PVE moneys. The department had not submitted the reports for fiscal years 1990-91 or 1991-92 as of January 1993.

Department personnel stated preparation of the annual reports has been delayed because they needed more time to gather program and financial information from other state agencies. However, we noted the department sent letters to the other state agencies requesting the necessary information more than four months after the fiscal year 1990-91 report was due to the federal government. We believe the department's failure to file the 1990-91 annual PVE report more than 16 months after the deadline is excessive. The department should gather information necessary to prepare and submit these reports in a timely manner. We reported this concern in the prior audit. The department concurred with the recommendation but did not implement it.

Recommendation #B5-1

We recommend the department prepare and submit the annual Petroleum Violation Escrow expenditure report within the time required by federal regulation.

Response #B5-1
The department submitted the FY93 annual report November 1993. Additionally, we have sent a copy of the annual report and reporting requirements to the agencies who were appropriated PVE for FY 94 and 95.

B5-2 Identification of Federal Assistance

The state is participating in an Environmental Protection Agency (EPA) program to assist local government's efforts to control water pollution. The EPA provides capitalization grants (CFDA #66.458) to the state for the establishment of a state revolving loan fund (SRF). Through the SRF, the state makes loans to local governments for construction or improvement of waste water treatment systems. The department does not identify the loans as federal assistance or notify the loan recipient of federal audit requirements.

Department personnel have not informed local governments that a loan is federal assistance because initially the department considered the moneys state funds rather than federal. The federal Single Audit Act of 1984 defines federal financial assistance as grants, loans or loan guarantees. The federal Office of Management and Budget (OMB) Circular A-128 requires the department to identify federal assistance awarded to recipients. The circular further requires the recipient or subrecipient of federal assistance to be audited in accordance with federal standards.

Recommendation #B5-2

We recommend the department notify State Revolving Fund Loan recipients that the loans are subject to federal audit requirements.

Response #B5-2

Concurs. Loan recipients now receive written notification of the federal audit requirements at the time of loan closing. Those who have already received loans have been notified.

Federal Compliance

The department receives federal money for investigating medicaid (CFDA #93.775) and welfare fraud (CFDA #93.020/93.560 and CFDA #10.561), as well as for performing Royalty Audits (CFDA #15.999). We identified the following areas where the department could improve controls to ensure compliance with federal regulations.

B6-1 Unallowable Medicaid and Welfare Fraud Charges

We noted several charges made to the medicaid and welfare fraud programs during fiscal years 1990-91 were not in compliance with federal regulations. We noted the department followed the same procedures in fiscal years 1991-92 and 1992-93.

-- OMB Circular A-87 states "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." The department directly charged salaries for two employees in the Director's Office which were also included in the federal indirect cost rate proposal. It is not reasonable to charge the same costs to a program twice. Department personnel indicated the person responsible for direct charges to the grant was not aware that these salaries were also included in the federal indirect cost rate proposal.

-- OMB Circular A-87 requires a certification of hours worked or the portion of the salary benefiting the program from each employee at least monthly. The only support for the salary of one of the employees in the Director's Office is a certification dated June 11, 1992, which covers fiscal years 1990-91 and 1991-92. Because of the lack of monthly certifications, we question $2,820 of federal welfare fraud and $31 of federal medicaid fraud personal service charges for the employees in the Director's Office for fiscal year 1990-91.

-- OMB Circular A-87 states "A cost is allocable to a particular cost objective to the extent of benefits received by such cost objective." The department charged the operating costs of the Director's Office to the federal grants based on the percentage of time two employees work on the grants. The Director's Office has four employees. By charging a percentage of total operating costs for four employees based on hours worked by two employees, the department does not allocate charges to the federal program based on actual

effort. Therefore, we question $1,394 of federal welfare fraud and $40 of federal medicaid fraud operating expenditures for fiscal year 1990-91.

-- OMB Circular A-87 states the employers time and effort report must reflect an after-the-fact distribution of the actual activity of each employee. We reviewed the allocation of salaries to the federal grants. Although department personnel identify hours worked by person, they allocate personal services based on the average percent of time all employees work on each grant. By using this average, the department is overstating the hours worked by some employees and understating the hours worked by others. Since each employee is paid at a different rate, this may result in over or under charges to the federal programs. For the quarter ended June 30, 1991, we calculated the department overcharged welfare fraud $24 and medicaid fraud $121. As a result, we question these federal charges.

On July 1, 1993, the Welfare and Medicaid fraud programs were transferred to another state agency. A department official said the department had intended to revise its indirect cost rate proposal to compensate for the effect of previous errors. Since the department no longer has the programs, this corrective action did not occur.

Recommendation #B6-1

We recommend the department charge only reasonable and allowable costs to federal programs in accordance with federal requirements.

Response #B6-1

The Welfare Fraud and Medicaid Fraud Programs have been transferred to the Department of Justice effective July 1, 1993. The procedural problems noted by the audit had largely been corrected before that event. Other questioned amounts in years for which the Department of Revenue was responsible will be addressed with the Department of Social and Rehabilitation Services officials as necessary.

B6-2 Accounting Records

Federal regulations require costs to be directly related to the specific grant and the primary accounting records to accurately reflect the costs associated with each federal program. State accounting policy provides guidelines for recording indirect costs on the states accounting records. While testing federal expenditures and revenues, we noted the following items. Department personnel made errors on the Schedule of Federal Financial Assistance (SFFA) they provided to the Office of Budget and Program Planning for fiscal years 1990-91 and 1991-92 of $588 and $4,048, respectively. These errors occurred due to misclassifications of expenditures between medicaid and welfare fraud and excluding some prior year and indirect costs. Since the primary (SBAS) accounting records do not separately identify medicaid and welfare fraud expenditures, it is difficult for department personnel to accurately report these two programs on the SFFA.

Department personnel indicated that they account for federal costs in one primary center in order to estimate costs for budgeting purposes. However, the accounting records do not support individual federal program costs. Maintaining federal grant expenditures for medicaid and welfare fraud in one cost center does not allow for efficient identification and accurate reporting of these expenditures.

Recommendation #B6-2

We recommend the department record federal program costs on the state's accounting records to facilitate accurate reporting of federal program expenditures.

Response #B6-2

For the one remaining program within the Department of Revenue, the royalty audit program, expenditures are identified and reported in a unique cost center to allow for efficient identification and accurate reporting of the expenditures.

B7-1 Patient Employment

The Montana State Hospital operates a patient employment program. The program is certified by the U.S. Department of Labor and allows the employment of individuals with disabilities at special minimum wage rates. During our prior audit, we found the patient employment program was not operating in compliance with current federal regulations.

Federal regulations for patient employment programs require the department to base the special minimum wages paid to patient workers on the worker's individual productivity in proportion to the wage paid to an experienced nondisabled worker performing essentially the same work. Federal regulations also define an experienced worker as one who has learned the basic skills of the work he performs, ordinarily by completion of a probationary or training period.

MSH pays patient employees a proportionate wage based upon the amount a state employee would earn at the entry level salary for similar work. According to state policy, the entry level salary for state employees is normally paid for a six-month probationary period and upon successful completion of the probationary period the state employee is evaluated and promoted to a permanent position. Therefore, the wage for experienced patient employees should be the applicable percentage of the wage of a state employee with more than six months of experience.

The hospital has set limits on the percent of productivity a patient employee will be paid. These limits place arbitrary ceilings on patient employees' earnings regardless of productivity. The following table shows the wage ceilings for positions held by patient employees.

Patient Employees' Maximum Earning Rate

State Pay Grade	Productivity Limit	Maximum Wage
5	75%	$4.11
7	65%	$4.15
8	60%	$4.15

Source: Compiled by the Office of the Legislative Auditor

Personnel explained the limits allow more patients to work in the program. However, federal regulations do not allow for fixed productivity limits such as those used by MSH. In accordance with federal regulations, a worker performing at 80 percent of the capacity of a regular employee should receive payment at 80 percent of a regular employees' wage.

The noncompliance with federal regulations discussed above is a result of not having written procedures to ensure compliance. Continued exemption from the provisions of the federal minimum wage law for the patient employment program depends upon compliance with federal regulations under which the exemption is granted. In our prior audit, the department concurred with a recommendation to establish written procedures to operate the program within current federal regulations, but did not establish such procedures.

Recommendation #B7-1

We recommend the department establish written procedures at Montana State Hospital for the patient employment program to ensure the program complies with current federal regulations.

Response #B7-1

Concur. The Patient Employment Policy and Procedure was revised as of September 23, 1992. Patients who have worked the six month probationary period will be paid the proportionate

share of wage paid a permanent state employee performing similar work. The percentage of wage they will be paid will be based on their individual capabilities.

B7-2 Equipment Inventory Records

The department purchased computer equipment worth $21,399 in fiscal year 1990-91 for use in the industries training program at Montana State Prison (MSP) using Carl Perkins grant funds (CFDA #84.048). MSP accounting personnel recorded the central processing unit, five work stations and two printers as one equipment item on the department's property records. Federal regulations require a state agency to manage equipment acquired under a grant in accordance with state laws and policies.

State accounting policy requires the department to assign individual property numbers to each fixed asset item with a value in excess of $1,000. The individual items of computer equipment each have value greater than $1,000 and could be used separately from the other units. To ensure effective control over each unit and comply with state policy, department personnel should tag each unit with a unique property tag number.

A department official said the equipment was recorded under one number to ensure the total amount was recorded prior to fiscal year-end 1990-91. We noted the department had not assigned unique property numbers to the individual units as of June 30, 1992.

<u>Recommendation #B7-2</u>

We recommend the department assign individual property numbers to fixed assets as required by state accounting policy.

Response #B7-2

Concur. The department will immediately assign individual property numbers to the fixed assets in question as required by state accounting policy.

Federal Issues

Federal regulations require the department establish and maintain an effective internal control structure to ensure accountability for federal financial assistance. The following three issues address areas where the department can improve procedures.

B8-1 Equipment Usage Charges

As previously stated, the equipment management system is designed to provide management information and charge projects for equipment use. Federal regulations require the accounting records be supported by source documentation, such as time records and operator usage reports.

Department policy requires supervisors review and initial the operator usage reports to indicate the approval of charges to the various projects. This review and approval is designed to ensure accurate charges to projects on which the equipment was used. We recommended in the previous three audits that the department implement policies requiring review and approval of operator usage reports. We also noted problems with the equipment management system in our June 1992 performance audit of the Equipment and Motor Pool Programs (91P-28). In that audit we recommended the department ensure the equipment management system provide useful, accurate, and timely information; establish controls over data input, processing, and output; and provide training to ensure staff understand how to use the system.

During our testing of charges to the federal planning and construction program (CFDA 20.205), we reviewed six equipment usage transactions from fiscal year 1991-92 and through February 1993. We found the following inconsistencies with department policy and federal requirements.

-- Five of the six equipment usage reports reviewed had not been initialed by a supervisor.

-- Three equipment usage charges were not properly supported by the equipment usage reports. Two projects were undercharged and one project was overcharged for mileage

recorded on the usage report. The amounts were not significant.

-- We compared operator usage reports to the operators' weekly time sheets for the related pay period. We found one usage charge where an operator reported using an equipment unit during a week the operator's timesheet indicated he was on vacation.

Personnel explained the last instance resulted because the equipment unit remained assigned to the project although the user was on vacation. Personnel added the equipment could have been used by another operator during the period the operator who initialled the usage report was on vacation. If that is the case that operator should initial the report for that period of time.

It takes time to complete, review, and input data from the operator usage reports and it appears the data may not be accurate. If the department continues this method of charging projects for equipment usage, it should ensure application of effective control procedures. Control procedures include supervisory review and approval of operator usage reports and comparisons of operator usage reports to time sheets. Effective control procedures could improve the accuracy of information recorded on the operator usage report and input to the equipment management system.

Based on this same finding in our previous reports, the Federal Highway Administration (FHWA) requested the department perform a statewide review to determine the extent of discrepancies in the usage reports. The department did not perform the review, stating the review was not a priority concern for them. The department should work with FHWA to determine appropriate procedures to ensure charges to federal projects are properly supported.

Recommendation #B8-1

We recommend the department review and revise department policy for equipment usage charges to ensure charges to federal projects are properly supported and recorded.

Response #B8-1

Concur. To ensure enforcement with current policy, the problems were discussed with the District Engineers at the August District Engineer meeting. As a result, each District Engineer agreed to make it mandatory that the reports be reviewed and approved. Also, it would be stressed as to the importance of accuracy of operator usage compared to time sheets. Through discussion with FHWA, it is agreed that the Department's policies and procedures are adequate but enforcement is the problem. In the December 1, 1993 District Centralized Services Supervisor meeting, the problem of enforcement was discussed. Each office will issue procedures and conduct training during the fiscal year.

B8-2 Timely Application of Payroll Additive Rates

The department calculates an annual payroll additive rate to recover personal services leave and benefit costs involving federally funded construction projects. The rate is applied to personal services charged to federal participating projects. The additive rate is reviewed and adjusted for a federal fiscal year period which is October 1 to September 30.

The calculated rates for federal fiscal years 1990-91 and 1991-92 were 38.34 percent and 43.33 percent, respectively. The department's computer system was not changed to the federal fiscal year 1991-92 rate until January 28, 1992, or 120 days after the start of the period. As a result, we estimate the department did not recover $162,114 of payroll additive costs in fiscal year 1991-92.

Department personnel were not aware the payroll additive rate was not changed timely in October 1991 because there was a lack

of communication between the department's accounting and information system bureaus.

Recommendation #B8-2

We recommend the department establish procedures to ensure the payroll additive rate is adjusted on the department's systems in a timely manner.

Response #B8-2
Concur. The Department has implemented procedures to prevent this from recurring. Accounting Services Bureau has requested a system edit notifying agency personnel if the rate has not been changed in a timely manner. Also, note that the revenue will be recovered in the future. The rate is adjusted each year based on a break-even basis.

B8-3 Federal Participation Rate Input Errors

In our previous audit, we recommended the department establish procedures for preventing and detecting input errors for federal participating rates. Personnel performed a review in August, 1992 of 118 projects and found and corrected 3 input errors. Personnel stated no one reviews input documentation to ensure the correct rate was entered and no additional review has been performed since the review in 1992.

During our testing of construction project charges, we found the department's computer system was programmed with incorrect federal participation rates for three of the thirty-two federal highway projects. One project was corrected when employees processing a project modification discovered the error; however, an incorrect rate was applied from February 1990 until September 1992. The other two projects were not detected. We estimate the department did not recover federal revenue of $327,125 for the two projects during the period of July 1991 to May 1993.

Department personnel explained that few hours are available for reviewing the federal participation rates and FHWA is converting to a new accounting system. Because of these reasons, the department relies on FHWA and final project review procedures to detect prorata input errors.

It is the department's responsibility to establish and maintain an effective internal control structure, including controls to ensure charges to federal financial assistance programs are properly supported. The department should establish procedures, such as supervisory review, to ensure rates are input accurately.

Recommendation #B8-3

We recommend the department establish procedures to ensure the federal participation rates are correctly input to the department's computer system.

Response #B8-3

Concur. The Department implemented several review procedures of the federal participation rates to ensure they are correct.

1. The Financial Management Bureau completes a billing voucher header sheet for each new project. The Information Services Bureau key punches this data into the Billing Voucher (BV) system. The Financial Management Bureau then checks the header back to the BV system to ensure the data is key-punched correctly. (This procedure has been in effect during the last four fiscal years.)

2. The Financial Management Bureau also checks the percentages on modifications. They compare the modification programming document percentages to the BV system percentages. (This procedure has been in effect during the last four fiscal years.)

3. At fiscal year end, a reconciliation is completed on a sample of all projects. The programming document percentage are

compared to the BV percentage. (This procedure was performed at the beginning and end of fiscal year 1993.)

Department of Social and Rehabilitation Services

B9-1 Unlocated State Property

The department maintains an inventory system independent of the state's property accounting system. The Property Accounting System (PAS) is a system unique to the department which is designed to provide accountability for all department property and satisfy agency accounting, administrative and audit requirements. We reviewed the department's inventory listing of property, approximately $4.4 million at June 30, 1993, and noted $419,061 of state property could not be accounted for or could not be physically located.

The majority (approximately 90 percent) of the department's funding comes from federal sources such as the Medicaid (CFDA #93.778), Vocational Rehabilitation (CFDA #84.126), and Food Distribution (CFDA #10.567) programs. Therefore, acquisitions of equipment are purchased in whole or in part with federal funds. Federal regulations require the department to maintain a control system with adequate safeguards to prevent loss. Any loss, damage, or theft of equipment should be investigated and fully documented. Also, the Montana Operations Manual (MOMS), and the department's administrative policy stress the importance of complete and accurate property accounting records. According to state policy, complete and accurate records are essential for the protection of state property. Without accurate records the state risks losing property due to theft and misuse.

We informed department management of our concerns and they performed a partial inventory and were able to locate $119,328 of the $419,061 previously unlocated property. As of August 1993, property amounting to $299,733 had not been accounted for or located. The following table shows the unlocated property by assigned location and amount.

Unlocated State Property
As of August 1993

Location	Dollar Amount
Property Stored at Warehouse	$ 82,267
Family Assistance Division	59,185
Director's Office	20,735
TEAMS	16,673
Missoula District	15,412
Developmental Disabilities Division	12,265
Flathead County	11,824
Cheyenne Reservation	11,307
Budget & Program Planning	9,605
Medicaid Services Division	8,896
Child Support Billings	4,836
Helena District Office	4,741
Child Support Helena	4,698
Great Falls District Office	4,629
Other Locations	32,660
Total	$299,733

Source: Compiled by the Office of the Legislative Auditor from department property records

The unlocated inventory of $299,733 is comprised of various categories. The following are examples of missing items: 30 computer monitors; 26 printers; 8 personal computers; 7 cameras; 7 VCRs; 5 portable computers; and 3 camcorders. These electronic items are susceptible to loss, theft, and misuse.

Department personnel stated there was a lack of communication concerning who was responsible for locating items and returning the inventory forms sent by the property manager. Personnel indicated state equipment located in the counties may have been traded in on new equipment that is now county equipment. They also stated many pieces of equipment have been loaned to other divisions and never returned, or loaned out again. After discussing the issue with department personnel in November 1993, the department performed further investigation and indicated they were able to locate $264,288 of the property. The following table shows the cost of property still unlocated as of December 1993.

Unlocated State Property
As of December 1993

Location	Dollar Amount
Family Assistance Division	$ 6,979
Director's Office	1,527
TEAMS	2,742
Missoula District	2,226
Budget & Program Planning	2,602
Medicaid Services Division	2,555
Child Support Billings	2,291
Helena District Office	1,182
Child Support Helena	1,600
Great Falls District Office	938
Other Locations	10,803
Total	$35,445

Source: Provided by the Department of Social and Rehabilitation Services on December 3, 1993

Management should establish priorities to account for property and ensure adequate safeguards are in place especially for equipment that is susceptible to loss or theft. In addition, the department should determine the status of all missing property and adjust the property records accordingly.

Recommendation #B9-1

We recommend the department:

A. Locate all missing equipment and adjust property records accordingly.

B. Properly account for all property in accordance with state policy.

Response #B9-1

A. Concur. 3-1-94 The Department will continue the effort to locate all missing equipment and will adjust property records accordingly. As of this date the total acquisition cost of

unlocated equipment is $8,770 and has a current market value of approximately $1,933.

B. Concur.

Accounting Record Accuracy

State law requires transactions entered on the state's accounting system be recorded in accordance with Generally Accepted Accounting Principles (GAAP). The Accounting and Management Support Division of the Department of Administration (DofA) issues accounting rules to ensure state accounting policy complies with GAAP. Accounting for financial activity in accordance with these requirements improves the quality, consistency and comparability of the resulting financial information among state agencies. It also ensures that revenues and expenditures are properly and consistently measured within each fiscal year. The department had a large negative fund balance in the Special Revenue Fund in fiscal year 1992-93 and made errors in recording revenue and expenditure accruals in fiscal years 1991-92 and 1992-93.

B9-2 Special Revenue Fund Balances

The department maintains a federal special revenue account to record activity related to federal public welfare grants such as Medicaid, Social Services Block Grant, Low Income Home Energy Assistance and Aid to Families With Dependent Children. The majority of the moneys are provided by the U.S. Department of Health and Human Services under the Medicaid program (CFDA #93.778). This federal special revenue account has not had a zero fund balance for the last eight years. State policy requires that federal funds expended equal federal revenue in this account; therefore, resulting in a zero fund balance. A federal account with a fund balance may indicate overexpenditures of federal funds, the state contributed more than its required share of matching funds, or the department has not requested its full allotment of federal revenue.

In each prior audit since fiscal year 1985-86, we recommended the department analyze and correct fund balances in this federal special revenue account. At the beginning of fiscal year 1991-

92, the department opened a new account to record all federal public welfare grant revenue and expenditures. They also began closing the old out-of-balance account as part of the procedure to implement our prior recommendations. By fiscal year-end 1992-93 the department had closed-out the fund balance in the old account and transferred the unreconciled residual fund balance to the state General Fund. The department was unable to identify the source of the residual fund balance.

The department's new federal special revenue account is also out-of-balance. At fiscal year-end 1991-92, the department had a $754,700 positive fund balance. Department personnel did reconcile the account after fiscal year-end 1991-92, and adjusted accounting records accordingly. However, at fiscal year-end 1992-93 the new federal special revenue account had a $14,101,917 negative fund balance. Department personnel stated the majority of the negative balance is the result of an error in recording the Medicaid revenue accrual.

The department tried to reconcile the new federal special revenue account balance by adjusting for the accrual errors in fiscal year 1992-93. However, they could not determine the composition of approximately $400,000 until November 1993. At that time, department personnel indicated the fund balance was reconciled. Department personnel should continue to reconcile this federal special revenue account each year and ensure it has a zero fund balance at fiscal year-end.

Recommendation #B9-2

We recommend the department ensure its federal account is reconciled at the end of each fiscal year.

Response #B9-2

Concur. The fiscal year end 1992 and 1993 fund balances were reconciled and the adjustments were made to SBAS. The department was aware of and had notified both the Legislative

Auditor's Office and the Department of Administration of the large negative fund balance in 1993. A spreadsheet has been developed that will make the reconciliation more timely.

B9-3 Cost Allocation Plan

The department operates central management, accounting, and data processing functions. It charges the cost of these functions to the department's various federal programs using a cost allocation plan (CAP). Federal regulations require indirect costs be allocated to federal and state programs in an equitable manner based on relative benefits derived. Also, all costs in the plan are to be supported by formal accounting records which document the propriety of all charges. During our audit, we reviewed several of the department's methods for allocating expenditures under its cost allocation plan. We noted two instances where the department did not allocate costs in accordance with federal regulations.

-- The department allocates certain administrative expenditures based on the hours spent on each federal program. Department personnel entered an incorrect number of hours spent by employees working on state and federal programs. This resulted in an improper allocation of expenditures to ten state and federal programs. We question the allowability of overexpenditures charged to the programs shown below.

Cost Allocation Misstatements
Fiscal Year 1991-92

CFDA #	Program Name	Amount Over(Under)
93.020[A]	AFDC	12
10.567	Food Distribution (needy family)	944
10.561	Food Stamps	(1,515)
81.042	Weatherization (DOE)	472
93.028[B]	Low-Income Home Energy Asst. Program (LIHEAP)	64
93.031[C]	Community Services Block Grant (CSBG)	88
93.778	Medicaid	(783)
10.570	Aging III-A	293
none	General Assistance-state share	(18)
none	Institution Commodities-state share	243

[A] Reported under CFDA #93.560 on the Schedule of Federal Financial Assistance

[B] Reported under CFDA #93.568 on the Schedule of Federal Financial Assistance

[C] Reported under CFDA #93.569 on the Schedule of Federal Financial Assistance

Source: **Compiled by the Office of the Legislative Auditor from department records**

Department personnel said, hours for two employees were transposed during input to the CAP and the mistake was not noticed. Department personnel should ensure all costs included in the CAP are supported by the agency's accounting records.

-- We found certain data processing costs were being allocated to the wrong federal programs. Data processing personnel track time spent working on data processing enhancements. The hours are accumulated and allocated to those federal programs which benefit from the enhancement. However, we found for some projects, time was not allocated to the appropriate program. These errors were then input to the cost allocation plan.

Total data processing costs allocated using this method were $365,932 in fiscal year 1991-92 and $355,577 in fiscal year 1992-93. It was not cost effective for us to determine the amount of expenditures incorrectly charged to the federal programs because it would have required a review of all data processing enhancement projects completed during the audit

period. However, we believe amounts allocated to incorrect federal programs are not significantly misstated.

Department personnel stated the method used to allocate data processing costs had not been revised for several years. They did not realize the data processing costs were being allocated to the incorrect federal programs. The department should periodically review data input to the CAP to ensure indirect costs are allocated to the program benefiting from the service.

Recommendation #B9-3

We recommend the department:

A. Ensure all costs included in its cost allocation plan are supported by the accounting records.

B. Periodically review data input to the cost allocation plan to ensure indirect costs are allocated to the programs which benefit from the service.

Response #B9-3

A. Concur. The Department is very conscientious about and aware of the importance of correct data in its cost allocation plan.

B. Concur. When the cost allocation plan is reviewed every year supporting documentation will also be analyzed and reviewed.

B9-4 Medicaid Personal Care Services Program

The Medicaid Personal Care Services program, administered by the department, provides long-term maintenance and supportive care to recipients in their homes. Its primary focus is to prevent or delay institutionalization, thus providing recipients the opportunity of remaining in their homes and reducing costs to the state and federal governments. Examples of services provided to recipients include feeding, bathing, dressing, preparation for sleep, and light housekeeping. Currently there are approximately 1200 recipients of the program services. In fiscal year 1992-93, the federal government provided 71 percent of the

funding for the program and the state government provided 29 percent.

The department contracts with one main private nonprofit corporation who provides the majority of personal care attendant (PCA) services for recipients, and who provides supervision of PCAs by registered nurses. In fiscal year 1991-92, this personal care services provider was the second largest private nonprofit recipient of Medicaid funds. Only one of Montana's major hospitals received more in Medicaid payments. In fiscal years 1991-92 and 1992-93 the provider received nearly $8 million each year to provide in-home services for recipients. Recipients must have a need for personal care services which are ordered by a physician and reauthorized at least once a year. This program provider's state contract requires that all recipients, except for 19 of the 1,200, who receive Medicaid PCA benefits, participate under this providers contract. Recipients may not receive Medicaid reimbursement for personal care services performed by a provider other than the one with the state contract.

The department has oversite responsibilities for the Personal Care Services program within Montana. There are two methods frequently used by state agencies to monitor a provider's compliance with contract requirements. In some cases an agency may require the provider to obtain a periodic audit of the system of internal controls to ensure compliance with contract requirements and quality of care. In other cases, state agencies prefer to perform a compliance review of the provider's system utilizing the state agency's program personnel. A department official indicated they monitor the personal care services contract by performing a compliance review of contract requirements every three years. However, we found a compliance review has not been performed for more than five years. In the last five years the department spent between $15 and $25 million in program funds on this contract. Based on our review of the program, we believe the department does not adequately monitor the contract to ensure the provider complies with the contract requirements.

During our review of the provider's records, we noted a file cabinet full of incident reports and complaints filed on behalf of

recipients of the Personal Care Services program. The reports are prepared by a program nurse supervisor, the services scheduler, or the PCA and include incidents such as recipient complaints regarding quality of care; PCA failure to show up for work; missing money or valuables; and recipient falls, seizures, and injuries. The provider files the incident reports in its Helena office for review by department personnel. Some incident reports convey quality of care concerns with the program, while other incident reports may simply indicate matters of lesser significance, such as when a recipient is not home when the PCA arrives for work. Neither the provider nor department personnel prepare weekly or monthly summaries of reported incidents or complaints as a tool to monitor quality of care. We scanned the incident reports and noted seven instances where the recipient complained that PCAs did not show for work as scheduled. In one instance, a recipient reported having to sit in a wheel chair all night because the PCA did not arrive to help her to bed. In other instances the incident report did not explain the consequences of the provider's inability to provide services.

The department has not reviewed most of the complaints or incident reports, for more than five years, when the department performed its last compliance review. Because the department spends nearly $8 million annually for PCA services, the department should have procedures in place to monitor compliance and verify the quality of care provided to recipients under the contract. To assist in monitoring the program, the department should consider obtaining weekly or monthly summaries of reported incidents or complaints.

A department official said that during the compliance reviews department personnel also test the quality of care provided under the program by interviewing a sample of recipients. In fiscal year 1987-88, during the last compliance review, the department interviewed seven recipients (five from Helena and two from Bozeman) as part of the compliance review. Department personnel indicated a shortage of personnel and monetary resources have restricted the department's ability to perform more frequent and comprehensive compliance reviews of the contract.

The department should consider the benefit of increasing the sample size when conducting interviews with recipients. Considering that in fiscal year 1987-88, there were approximately 1,000 recipients in the program, interviewing 7 recipients is not sufficient to verify the quality of care provided to program recipients.

Given the annual cost of the contract, compliance reviews should be performed more frequently than every three years or the department could consider requiring that the provider obtain a periodic audit. There would be a cost associated with properly monitoring this provider contract; however, the federal government would pay approximately 71 percent of the cost.

Recommendation #B9-4

We recommend the department:

A. Monitor the provider's compliance with the Personal Care Services program contract in a timely manner.

B. Establish procedures in the Personal Care Services program to monitor incidents and complaints in a timely and on-going manner.

Response #B9-4

A. Concur. The department currently has a contract with a private accounting firm to complete a compliance review of the personal care services contract. We expect to have the report by mid-April, 1994. Future contracts for personal care services will include a requirement that the contract agency arrange for a compliance audit each year from a private audit firm.

B. Concur. The Department will implement a system to monitor incidents and complaints by October 1, 1994.

Federal Program Internal Controls

The department's responsibilities include establishing and maintaining adequate systems of internal control. Internal control procedures provide an essential part of an organization's ability to safeguard assets and verify accuracy and reliability of accounting and management data. The following report sections address areas where management could improve its internal control.

B9-5 Medicaid Waiver Program for Developmentally Disabled

To meet federal Medicaid requirements, the department requested we perform an independent assessment over the Developmentally Disabled (DD) Medicaid Waiver Medical Assistance program (CFDA #93.778) for fiscal years 1990-91 and 1991-92. The DD Medicaid Waiver program allows eligible individuals to receive medical benefits and other special services not available under the Medicaid state plan. Some examples of special services provided to the client include homemaking assistance and day care activities for eligible children and adults. In order for the program to be approved by the federal government, it must be cost effective. For example, the DD Medicaid Waiver cost of care should be less than the cost of institutional care. The results of our testing are discussed below.

The DD Medicaid Waiver program uses a client database system to pay invoices and provide the support for its federal expenditures. The database should be reconciled to Statewide Budgeting and Accounting System (SBAS) to ensure waiver expenditures are supported by the state's accounting records and to ensure all allowable expenditures are charged to the federal account. We noted SBAS reported $10,187 more federal waiver expenditures than the client database. A division official said the unreconciled difference could not be explained so they did not request reimbursement from the federal government. Consequently, the state General Fund may have improperly paid $10,187 of Medicaid Waiver expenditures.

During our review of the waiver program, we compared DD provider corporations' expenditure reports to the waiver contract amount. Of the 32 DD providers, we noted one instance where

the provider could not account for $463 of expenditures. The division did not request a refund from the provider or support for the $463 expenditure. A division official said the amount was recorded on the accounting records as benefit expenditures because DD determined that was the best place to record it. Federal regulations require all expenditures be supported by adequate documentation. Since the department could not provide documentation for the expenditures, we question the allowability of the $463 for federal reimbursement.

Recommendation #B9-5

We recommend the department:

A. Resolve differences between expenditures on the client database and SBAS.

B. Ensure DD Medicaid Waiver expenditures are supported as required by federal regulations.

Response #B9-5

A. Concur. The Division has reconciled FYE93 SBAS and client database and will continue to do monthly reconciliations.

B. Partially Concur. The Division agrees that documentation should support all DD Waiver expenditures. In total, the provider's financial reports provided the assurance of adequate documentation. We believe that these costs could be defended in a federal review, that is why the Division submitted these costs to the federal government for reimbursement.

B9-6 Accounting for Child Care Block Grant

In fiscal year 1992-93, the department was authorized to spend $193,730 of the Child Care Block Grant administered by the state Department of Family Services (DFS). The Child Care Block Grant (CFDA #93.575) was used by the department to provide day care rate increases authorized by the 1991 Legislature. Total Child Care Block Grant expenditures recorded on the department's accounting records for fiscal year 1992-93 were $245,909. Therefore, the accounting records indicate the grant was overspent by $52,179. Department personnel indicated the excess expenditures will be charged to another day care program that provides the same services. Department personnel explained the overexpenditure occurred because of a misunderstanding between department personnel over state versus federal fiscal years.

In addition to overspending the grant, as of October 1993, the department has not billed DFS for fiscal year 1992-93 expenditures. Prudent fiscal management dictates that reimbursements of expenditures should be billed on a timely basis. Department fiscal personnel indicated because of employee turnover they spend the majority of their effort working on other larger federal grants and overlooked billing DFS.

We also noted the Child Care Block Grant was not recorded on the department's Schedule of Federal Financial Assistance for fiscal year 1992-93, or fiscal year 1991-92. Federal regulations require recipients of federal assistance to report all federal financial assistance expended each fiscal year.

Recommendation #B9-6

We recommend the department monitor grants to ensure timely billing and accurate recording.

Response #B9-6

Concur.

B9-7 Liability for Disallowed Medicaid Expenditures

This report section discusses an issue which we believe warrants disclosure. The Health Care Financing Administration (HCFA) disallowed $261,757 of expenditures the department had claimed for Qualified Medicare Beneficiary (QMB) buy-in premiums in the Medical Assistance Program (CFDA #93.778). Medicaid regulations require states to pay the Medicare premiums for qualified low income individuals. In November 1991, the department discovered the General Fund had paid all of the QMB buy-in premiums for some individuals. The costs should have been split between the federal Medicaid program and the state General Fund in an approximate 70/30 ratio. Department personnel said the previous eligibility system was not designed to count QMB cases for buy-in purposes and, as a result, the cases in question were not discovered until the conversion to the new eligibility system.

Department personnel spent several months reviewing QMB costs and determined the amount that should have been funded by federal Medicaid funds. In June 1992, the department claimed $575,415 of prior years QMB buy-in expenditures from the Medicaid program. The expenditures relate to fiscal years 1988-89 through 1990-91. Since the General Fund originally paid the expenditures, the department reimbursed the General Fund $575,415.

HCFA performed a review of the QMB buy-in premium claim of $575,415, and disallowed $261,757. The claims were disallowed because federal regulations require states to file claims for expenditures within two years after the calendar quarter in which the state agency made the expenditure. Therefore, all claims prior to June 30, 1990 were disallowed. In response to this disallowance, the department requested an extension of the time limits due to "good cause" circumstances beyond the state's control. HCFA denied this request. Federal regulations define good cause and provide examples of circumstances beyond the state's control such as: acts of God or documented action or inaction of the federal government. Regulations further state, "Circumstance beyond the State's control do not include neglect or administrative inadequacy on

the part of the State, State agencies, the state legislature or any of their offices, officers, or employees."

As a result of the disallowance, the General Fund has a liability to the federal government of $261,757. Since department officials are aware of the liability, we do not make a recommendation at this time.

Federal Compliance

The department's federal assistance is not typical because it does not generally consist of direct federal reimbursement of program expenditures. The department receives nonmonetary assistance in the form of federal surplus property, expends federal assistance obtained by other state agencies from jointly held construction accounts, and receives assistance it passes through to other state agencies. The following five sections summarize concerns we identified and suggestions for improving the department's compliance with federal regulations.

Federal Surplus Personal Property Donation Program (CFDA #39.003)

The objective of the Surplus Personal Property Donation Program is to distribute federal surplus personal property to state and local public agencies and certain nonprofit, tax-exempt entities. The Department of Administration's Property and Supply Bureau manages this federal program. The bureau reported receiving federal surplus property valued at $3,491,685 and $3,617,602 in fiscal years 1991-92 and 1992-93, respectively. For reporting purposes, federal surplus property is valued at the original federal acquisition cost. Department officials estimate market value of surplus property is 10 to 15 percent of the original federal acquisition cost.

Potential donees file applications to participate in the program with the bureau. The bureau determines donee eligibility. Eligible donees submit information on the types of items they want or need. The bureau compiles this information into a "want list." Bureau personnel travel (to military bases, e.g.) to physically screen property and complete a request to hold property they may want. They also perform a "paper screen" by reviewing lists of available property provided through the bureau's memberships in the National Association of State Surplus Property Organizations and the Western Surplus Property Organization.

Bureau personnel then decide which items they will request and list the items on a transfer order. The bureau faxes transfer orders to the regional headquarters of the General Services Administration (GSA). The GSA authorizes the transfer orders

if the items requested are available and within the estimated award allocation limit to Montana.

The federal government transfers surplus property to the bureau. If the property is on a Montana military base, the donee may travel to the base and pick up the item to save transportation costs. The bureau contracts with trucking firms to transport other property to the bureau for storage. The bureau is responsible for ensuring the property is properly accounted for and adequately warehoused while in storage.

The bureau distributes the property through donation to eligible donees and ensures donees comply with donation provisions and proper use of property. The bureau recovers its operating costs by charging a fee to participating donees.

During our audit, we identified the following issues regarding the bureau's accountability for, incompatible duties over, and warehousing of federal surplus property.

B10-1 Property Accountability

Bureau personnel file the "State Agency Monthly Donation Report of Surplus Personal Property" with the GSA quarterly. Bureau personnel compute the amount of property received to report to GSA by manually adding up the acquisition amount (donated value) on the transfer order forms issued to request federal surplus property. This method of computing the amount of property received can cause errors on the quarterly federal report because the transfer orders: 1) may not include items received which were not ordered; 2) may include items not received; and 3) do not document the dates items were received.

The bureau does not receive all items requested on transfer orders because other entities (e.g., other federal agencies) have higher priority when they request the same items. Sometimes the bureau receives items it did not order. According to bureau personnel, if they find a shortage or overage in the items shipped, they notify GSA by letter. Usually a copy of this letter is filed with the transfer order. However, if GSA finds the shortage or overage first, the bureau may not send a letter to GSA or document the discrepancy with the transfer order. Bureau personnel do not consistently document the items received (and the related overages and shortages) on the transfer

orders. Many of the receiving log sheets the bureau uses are thrown away after the information is input into the computer.

Federal regulations require the "property received amount" be the amount of property received and posted to the inventory records during the report period. Bureau personnel do not document the date items were received on the transfer orders. This increases the potential for including a transfer order amount on two quarterly reports or excluding it from both reports. The potential for reporting errors was exacerbated during the audit period because there was turnover in the position responsible for preparing the federal report and the bureau had no written procedures for preparing the report.

We cannot audit the amounts reported to GSA or the related amounts reported on the state's Schedule of Federal Financial Assistance for this program. The bureau cannot provide support for the amounts reported to GSA during the audit period. The support for the amounts reported on each quarterly federal report was an adding machine tape (which was thrown away) of transfer order totals (which may have been adjusted by the individual preparing the report for overages and shortages they knew about which were not documented on the transfer orders). The transfer order amounts exceed amounts reported to GSA by about $1 million each fiscal year.

The bureau should develop procedures to ensure federal surplus property received is properly accounted for and accurately reported. The bureau could use transfer orders as a basis of accounting for property received if all pertinent information was documented on the transfer orders. Alternatively, the bureau could use increases to inventory recorded on its inventory system, provided there were adequate controls and documentation to ensure all items received were recorded on the system in a timely manner. The bureau could also implement both methods and reconcile the two systems to verify the systems' integrity.

Recommendation #B10-1

We recommend the department establish procedures to accurately account for and report the amount of federal surplus property received.

Response #B10-1

Concur. We have established the following procedures to comply with this recommendation:

Transfer order forms are issued when federal surplus property is requested from the federal government. When federal surplus property is received, the transfer order forms are marked as to what is received and what is not received. The adjusted transfer order form is used to fill out a tab sheet for pricing purposes. The information from the tab sheet is then entered into the computer.

Quarterly federal reports are prepared by netting original transfer order forms with the shortage letters that are sent to the federal government when equipment is requested but not received. In addition, the dollar totals of original transfer orders are now saved in the computer to eliminate the need to recalculate for preparation of the quarterly federal reports.

The federal government's auditors had reviewed the accounting system and are satisfied with the way the program was being administered.

B10-2 Incompatible Duties

After bureau personnel tag and price newly received property they manually list the property on a receiving log and assign each item an inventory number. The information from the log sheets is entered into the computer; then most of the log sheets are thrown away. The person who enters information from the log sheets into the computer sometimes also tags and receives merchandise. These duties are incompatible, in that the person could take property and alter records to indicate the property was not received. We could not determine the level of

supervision the person receives and to what extent the person's work is reviewed.

In a previous audit we noted a similar situation with incompatible duties in cash handling at the bureau. Subsequent to our observation, a theft occurred. Bureau management should restructure staff responsibilities to eliminate incompatible duties. This would improve safeguards over surplus property.

Recommendation #B10-2

We recommend the department restructure the duties of Property and Supply Bureau personnel to eliminate incompatible responsibilities.

Response #B10-2
Concur. We will establish procedures to correct this situation.

B10-3 Inadequate Warehousing

On December 2, 1993, we observed bureau personnel unload and store two semi-trailers of office furniture. Bureau personnel stored the items most susceptible to weather damage inside a warehouse. They covered many other items (including wood desks, metal desks, fabric-covered chairs, wood chairs, and metal filing cabinets) with tarpaulins and stored them in a fenced yard. They prioritize items for susceptibility to weather damage because the amount of warehouse space is limited.

Federal regulations require that federal surplus property be adequately warehoused. To comply with federal regulations, the bureau should investigate its options. For example, the bureau could consider ways of reducing its inventory, as well as options for increasing warehouse space. The option of increasing warehouse space would involve construction costs, purchase of existing buildings, or additional rental expense. To reduce inventory, the bureau could limit items accepted for which no eligible donee has made a request.

Recommendation #B10-3

We recommend the department investigate alternatives for warehousing federal surplus property.

Response #B10-3
Concur. We are currently investigating alternatives for warehousing.

Architecture and Engineering Division

The department's Architecture and Engineering Division (A&E) contracts for repairs and improvements to state facilities on behalf of state agencies. The division spends state, federal, and donated funds on these projects. The following two issues discuss the ramifications to federal programs of the division's noncompliance with federal regulations and state law concerning construction contracts.

B10-4 Monitoring Debarred and Suspended Contractors

Federal regulations prohibit recipients and subrecipients of federal funds from awarding federal moneys to entities which have been debarred or suspended from participation in federal assistance programs. A debarred or suspended contractor is one listed as ineligible to receive a federal contract. A&E awards construction contracts for other agencies, including contracts funded with other agencies' federal moneys.

Division personnel stated the division relies on the agencies to be familiar with the federal requirements and to notify A&E if debarment requirements should be included in the bid package. We contacted three state agencies that contract through A&E for federally funded construction projects. One indicated the requirement did not apply to that agency; one indicated it informs A&E when the debarment requirement is necessary for contracts and A&E is responsible for ensuring the contractor has not been debarred; and one indicated A&E is wholly responsible for complying with the debarment requirement. Because responsibilities are not clearly defined between A&E and the funding agencies, procedures are not adequate to ensure the state does not award federal funds to debarred or suspended parties.

Payments to such contractors would be unallowable charges to federal programs.

If the debarment requirement is applicable, A&E should clarify, with the funding agency, whether the agency or A&E is responsible for ensuring the contract: 1) is awarded to a party that has not been debarred or suspended and 2) contains language prohibiting use of subcontractors that have been debarred or suspended.

Recommendation #B10-4

We recommend the department clarify procedures which assign responsibility for compliance with federal debarment and suspension requirements.

Response #B10-4
Concur. The Architecture & Engineering Division will modify its procedures to ensure that the funding agency provides information during the initial stages of project setup clarifying whether or not federal debarment requirements pertain to a project. Based upon the information provided by the agency, the A&E Division will then be responsible for including appropriate language in the contract documents and for awarding the contract to a party that has not been debarred or suspended.

B10-5 Access to Contractor Records

Section 18-1-118, MCA, restricts state agencies from spending money on a contract with a nonstate entity unless the contract contains a provision allowing the legislative auditor and the legislative fiscal analyst access to the contractor's records. A state agency may terminate a contract, without incurring liability, for the refusal of a nonstate entity to allow access to records as required under this statute.

We reviewed the standard contract provisions used by the division. These provisions do not include specific reference to access for legislative oversight agencies. A department official said the contract contains general language which requires the contract parties to comply with all applicable laws and

regulations. We believe the statute requires specific reference to access for the cited parties for the division to legally expend money on the contract. In addition, the inability to access records on contracts could make it difficult to perform the oversight of these projects required by state and federal regulations.

Recommendation #B10-5

We recommend the department ensure construction contracts contain provisions for access to contractor records as required by state law.

Response #B10-5

Concur. The Architecture & Engineering Division will expand standard contract language to include a provision "allowing the legislative auditor and the legislative fiscal analyst access to the contractors' records."

B11-1 Local Government Services - Systems Program

The department's Local Government Services (LGS) systems program develops, implements, and maintains the uniform budgetary, accounting, and reporting system for local governments, including cities and towns. The program also provides technical and special assistance on accounting and reporting standards. By law, the department is responsible for compiling annual financial statements for those cities and towns which do not submit a copy to the department. During the prior audit, we identified a number of compilations the department did not perform and recommended they do so in accordance with state law. As a result, the department proposed amendments to section 7-6-4113, MCA, eliminating the department's responsibility for compiling unfiled annual statements. The legislation was not introduced.

During the current audit we determined the department still does not compile those statements as required by law, it does not bill for services it provides as permitted by law, and it does not have a system to document and support the time and effort charged for technical assistance to those cities/towns which it does bill.

Compilation of Statements - Local government's annual budget documents and financial reports are submitted to the department. Within 120 days after the close of the fiscal year, each city and town (entity), by law, is required to complete a statement of financial condition (statement) for that fiscal year. One copy of the statement is to be submitted to the department. If an entity fails to file a copy with the department, the department is responsible for examining the appropriate records and accounts and from the examination, compiling the statement.

We identified nine and ten statements for fiscal years 1991-92 and 1992-93, respectively, not filed or compiled. Seven of the same entities continue to not file and the department did not compile for either fiscal year. As of December 1, 1993, statements for 11 cities and 22 towns, due September 30, had not been received. Personnel explained the geographic constraints make it inefficient to travel and compile these statements.

Billing for Services Provided - We determined the department does not have an adequate system to ensure the services

it provides to the entities are being billed. We noted the department provides free services to some entities, while at the same time billing other entities for services not supported by time and effort records. Section 7-6-4113, MCA, defines the examination of applicable records and accounts necessary to compile an entity's statements as a special audit. According to section 2-7-503, MCA, a special audit requires a fee be paid by the local government entity based on the costs incurred. Since the department does not maintain detailed records of the actual time and effort spent compiling an entity's statements, the department does not ensure a local government is billed based upon the costs the department incurred.

Current procedures allow a city or town to purchase a contract for general technical assistance. During the audit period, the department offered two types of contracts. Type A contracts include assistance with compiling the annual statements, while type B contracts provide assistance specific to the financial reporting system. Each contract allows for a $30 per hour charge for assistance given in excess of the cost of the contract. Although type A contracts provide for compilation, type B do not; therefore, entities purchasing a type B contract should be billed the total costs incurred in compiling the statements. For type A contracts, we determined the department bills the entity for the contract amount and absorbs any costs in excess of that amount.

We could not determine the entire amount of technical assistance provided without recovering costs due to a lack of documentation tracking the type of assistance given.

<u>Unsupported Charges to a Federal Grant</u> - We identified entities with neither a type A or B contract; however, the entities had a Community Development Block grant (CDBG) contract with the department for technical assistance with CDBG (CFDA #14.228) funds. We determined these entities are billed a lump sum contract amount for services provided, without a record of time and effort provided to support the lump sum charged. These charges include the compilation of financial statements. This compilation is required by state law rather than a federal regulation. As noted above, the department does not maintain records of the type of assistance or the effort provided an entity to support the charges. Federal regulations require expenditures charged to a federal financial assistance program be supported with time and effort records.

Although each CDBG contract provides for an hourly rate up to the contract amount, the department charges the maximum amount without detailed justification or documentation of services provided.

The state's General Fund provides funding for LGS program costs which are not recovered from local governments. In fiscal year 1991-92 and 1992-93, General Fund support totalled $50,720 and $51,175, respectively.

Section 17-2-108, MCA, requires the department to charge expenditures against non-General Fund money whenever possible, before using General Fund moneys. In fiscal year 1991-92 and 1992-93, the program had a cash balance of $85,748 and $94,770, respectively, and no General Fund support remaining. Non-General Fund appropriation authority remaining at fiscal year-end 1991-92 and 1992-93 totalled $24,184 and $39,118, respectively. The department had non-General Fund moneys available to spend which could have reduced General Fund support.

Recommendation #B11-1

We recommend the department:

A. Complete the compilation of financial statements as required by law or evaluate the need for statutory revision of compilation requirements.

B. Establish a system to document time spent assisting cities and towns and recover the costs incurred providing such assistance.

C. Spend non-General Fund money first in accordance with state law.

Response #B11-1

A. The department concurs. We will be analyzing the utility of, extent of, and the reporting process of local financial statements in view of a proposed reorganization of our future systems obligations and capacity.

B. The department conditionally concurs. Re Billing for Services Provided - This program's system of documenting staff time will be improved. Where our services are appropriate and can be appropriately charged to an entity, we will continue to do so. Where it is further appropriate for our services and we cannot charge for such services for a defined and appropriate reason, we will continue to do so. The legislature's recognition that this program has legitimate generally defined unbillable hours is acknowledged by the general fund support appropriated to this program.
Re Unsupported Charges to a Federal Grant - The U.S. Department of Housing and Urban Development (HUD) "Administrative Requirements for Grants" (24 CAR Part 85.20) requires that the Department of Commerce assure that the financial management systems of CDBG recipients meet certain minimum standards regarding financial reporting, accounting records, internal and budget control, allowable costs, source documentation and cash management. Prior to 1991, local governments executed a lump sum contract with the Local Government Assistance Division to receive financial management assistance. Lump sum contracts sampled were billed on a lump sum basis. Beginning in 1991, all technical assistance contracts converted to a hourly cost system based upon documented time and services provided. In addition, in some communities it was necessary for Local Government staff to assist the local clerk compile financial statements of all government expenditures as part of the CDBG funded technical assistance in order to have records necessary to meet the project closeout and audit requirements of the CDBG program. This process was not solely a function to comply with state law, but was necessary to meet HUD audit requirements as well.

C. The department does not concur. The support of general funds appropriated to this program acknowledges the need for state fiscal participation in the performance of the program mission. Some agreement on how to account for such fiscal participation needs to be developed so as not to mechanically violate this law.

Management Controls

One of the basic tasks of management is to establish and maintain an environment where staff can work towards meeting established objectives. Management controls include policies, procedures, training, and established administrative processes. In the two previous audit reports, we discussed areas where the department could improve its management controls. The department concurred with all but one of the thirty-three specific recommendations contained in the prior audit report; however, we noted the department partially implemented four and fully implemented only fifteen of those recommendations. Fourteen of the specific recommendations were not implemented.

In our current audit, many of the problems we noted occurred because department personnel did not receive adequate training regarding laws and accounting policies; key accounting personnel did not provide adequate supervision and guidance to employees and did not thoroughly review transactions recorded on the state's accounting records; no procedures manual was available to provide guidance to staff to ensure responsibilities are completed properly and on a timely basis; and there was a breakdown in communication within the department which did not allow for adequate feedback.

The following report sections indicate the department did not have adequate management controls in place to prevent or detect errors. In the last section of this report, we make a recommendation to the Governor to assign a team of individuals to develop and ensure implementation of an effective management control system at the department. Because we do not audit all department activities and transactions, the errors we found are only examples of the types of problems that exist.

Monitoring of Budgets

Financial information of the department is used by department officials, budget analysts, and the legislature to manage and establish funding levels for the department. The Office of Budget and Program Planning (OBPP) budget analysts monitor remaining appropriation authority for agencies periodically throughout the fiscal year. This enables the budget analysts to

determine whether appropriations are adequate to fund programs for the biennium. If financial information is not properly recorded on the accounting records, budget analysts cannot adequately assist agencies or predict future funding needs, and the legislature, department management, and other state officials cannot make informed decisions, since the information recorded on the state's accounting records is not accurate and complete.

In the previous two audits of the department we noted concerns with the department's method of recording expenditures. Again in the current audit, we noted the department has not established adequate procedures to efficiently record its expenditures. As noted in the following paragraphs, the procedures used by the department result in excessive time spent by staff tracking and transferring expenditures to the appropriate funding source and a significant risk that expenditures will not be recorded in the proper fund. Many of the issues we noted could have been detected through monitoring of the budget by the department throughout the fiscal year and recording expenditures under the correct funding source at the time they are originally made.

B12-1 Special Revenue Fund Balances

The department maintains a federal special revenue account to record activity related to its federal programs. At fiscal year-end 1992-93, this account had an ending fund balance of $3,413,679. Its largest programs are associated with Foster Care (CFDA #93.020/93.560, 93.645, 93.658, 93.674) and Aging (CFDA #93.633, 93.635, 93.668). The majority of the moneys are provided by the U.S. Department of Health and Human Services. This federal special revenue account has not had a zero fund balance since the department was created in fiscal year 1987-88. Also at fiscal year-end 1992-93, the department had seven other accounts in its Special Revenue Fund with negative ending fund balances totalling $102,854.

State policy requires that federal funds expended equal federal revenue in this account which should result in a zero fund balance. A federal account with a fund balance may indicate a valid expenditure was not accrued, federal funds were received but not earned as of fiscal year-end, the initial expenditure was recorded in another fund and the expenditure was not moved to

the proper fund when the revenue was received, or federal reimbursement was not recorded in the fund where the costs were incurred.

We requested the department analyze the fund balances and determine the reasons for the inappropriate balances. Department personnel stated it appeared as if revenue was overaccrued, causing the fund balance to increase; however, the department was unable to reconcile the accounts as of December 1993.

In the previous two audits of the department we issued a qualified opinion on its financial schedules. The current audit contains an adverse opinion on the department's financial schedules. These opinions resulted from significant accounting errors which could contribute to the inappropriate fund balances.

Since the department was unable to identify the cause for the inappropriate fund balances, it was not practical for us to determine the dollar effect on revenue, expenditures, assets, and liabilities recorded on the department's financial records. The department should analyze these accounts and resolve the fund balance issues.

Recommendation #B12-1

We recommend the department ensure its Special Revenue Fund accounts are reconciled and fund balances are correct at the end of each fiscal year.

Response #B12-1
Concur. The department will review all 411 monthly reports for Special Revenue Fund accounts for negative fund balances each month and provide reconciliations where required.

B12-2 SBAS and Data Base Reconciliation

The department administers the foster care program (CFDA #93.645, #93.652, and #93.658). It uses a data base developed and maintained by the Department of Social and Rehabilitation Services to summarize services provided and payments made on behalf of foster care children. The department recorded approximately $15.5 million of foster care benefits paid during fiscal year 1992-93 on the data base. On a weekly basis, SBAS is updated using a magnetic tape with the financial activity recorded on the data base and state warrants are generated for payment to foster care providers. We noted in our audit report of the department dated May 1990 that a reconciliation of SBAS and the data base was not performed for either fiscal year-end 1987-88 or 1988-89. During fiscal years 1989-90 and 1990-91 the department implemented procedures and performed a reconciliation for each fiscal year-end. During the current audit, a reconciliation was performed for fiscal year-end 1991-92. However, the department did not complete a reconciliation of SBAS and the data base for fiscal year-end 1992-93. We noted the SBAS and the data base financial information differed by $744,610 at fiscal year-end 1992-93.

Department personnel stated the fiscal year-end 1992-93 reconciliation was not performed due to time constraints. In addition, department personnel stated the difference at fiscal year-end is largely due to the timing of when activity is recorded on each system and the recording of accruals. Since the department did not perform a reconciliation at fiscal year-end, it could not support the actual difference. Department personnel completed a partial reconciliation for fiscal year 1992-93 in December 1993 after our inquiry concerning the reconciliation. However, a $77,573 unreconciled difference still exists.

Section 17-1-102(5), MCA, provides "all state agencies . . . shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with GAAP." SBAS has been designated as the state's accounting system. The department should, on a timely basis, reconcile SBAS and the data base for each fiscal year to ensure

information recorded on each system is complete and accurate. The department could complete a reconciliation periodically during the fiscal year (i.e. monthly or quarterly). This could decrease the amount of time spent on the reconciliation for each fiscal year, since differences noted during the fiscal year would be identified and resolved.

Recommendation #B12-2

We recommend the department reconcile SBAS and its foster care data base on a timely basis to ensure financial information on the state's accounting records is accurate and complete.

Response #B12-2
Concur. Beginning March 31, 1994, quarterly reconciliations will be performed. However, we do not agree that the two systems differed by $744,610 at fiscal year-end 1992-93. The reason for this difference is the data base system does not include the expenditures that are accrued on SBAS. As a result, the two systems will never agree until all accrued expenditures have been received and process through the system. The reconciliation performed by the department in December 1993 showed the systems agree within 0.5%. A final reconciliation between the systems will still have to wait until a majority of the accrual and prior year activity is completed. Quarterly reconciliations will assist the department with determining the fiscal year-end accrual and make the final year-end reconciliation easier.

Compliance with Federal Regulations

The department receives approximately 94 percent of its federal funding from the U.S. Department of Health and Human Services. The majority of the federal funding is for aging and foster care programs. The department recorded approximately $17 million and $19.8 million of federal expenditures on SBAS during fiscal years 1991-92 and 1992-93, respectively. During the audit we noted the following areas where the department could improve procedures to comply with federal regulations.

We discussed these concerns with management during the previous audit, the department concurred with our recommendations and stated procedures had been implemented to address our concerns. However, the problems continue to exist.

B12-3 Procedures for Determining Title IV-E Foster Care Eligibility

The department administers the federal Title IV-E foster care program (CFDA #93.658). In order to be eligible for federal Title IV-E foster care reimbursements, federal regulations state recipients must have been removed from the home by means of a judicial determination or voluntary placement agreement and the child must be Aid to Families with Dependent Children (AFDC) (CFDA #93.020/95.560) eligible. Federal regulations also state, "For recipients of AFDC, all factors of eligibility will be redetermined at least every 6 months. . ."

We tested a sample of 32 foster care payments during fiscal years 1991-92 and 1992-93 to determine if payments were made on behalf of eligible clients. We noted the following instances where the department made payments on behalf of ineligible clients.

- In three instances payments were made on behalf of clients who did not meet the eligibility requirements for the foster care program.
- In one instance, the department could not provide proof of eligibility for payment made on behalf of a foster care client.
- In one instance, the department paid two providers for one day's care of a client.
- In one instance, the court order did not contain language required by federal regulations.
- In one instance, a judicial determination was not completed within the required time frame.
- In two instances, clients were paid under the incorrect eligibility code. The nonfederal portion of the payment should have been 100 percent state funded; however, this was split 50 percent state and 50 percent county. This resulted in the counties being overcharged for foster care services.

According to department procedures, the initial determination and redetermination of foster care eligibility is made at the field offices. The central office reviews and approves invoices submitted by foster care providers prior to payment. However, we noted the department has not established procedures to ensure this authorization is based on current eligibility information. Department officials stated the central office relies on field staff to ensure the forms are current and accurate. The procedures used by the department increase the probability of payments being made on behalf of ineligible clients.

We noted similar concerns during the last audit. Based on our findings the department was required to return approximately $10,000 to the federal government for payments made on behalf of ineligible clients. The amount returned to the federal government relates only to the questioned costs contained in our previous audit report of the department. We believe the eligibility determination issues we found represent a problem with the procedures established for the foster care program; therefore, additional funds could be required to be returned to the federal government if additional audit work was performed.

As a result of the compliance issues we found during our current audit, we question approximately $6.3 million of costs in each of fiscal years 1991-92 and 1992-93. Office of Management and Budget (OMB) Circular A-128 requires the auditor to question costs if noncompliance with general or specific requirements is noted. There are instances in which the circumstances of specific questioned costs could be the basis for the auditor to question all costs charged to a federal program. For example, if eligibility requirements, matching, or cost-sharing conditions have not been met by the recipient in certain circumstances, the entire amount expended in connection with affected programs may be questioned. If the questioned costs are subsequently disallowed by the federal agency, the entire amount must be refunded by the recipient.

The department is in the process of developing a new computer system to handle its foster care clients. According to department personnel, the issues noted above will be addressed during the development stages of the new computer system. At present the

implementation date of this system is July 1, 1995. A computer system may change the manner in which information is processed; however, a computer system will not ensure payments are made in accordance with federal regulations. The computer processes information it receives, but has no means to verify the validity or accuracy of the information. The department needs to establish an adequate control system to ensure payments are made on behalf of eligible clients.

Recommendation #B12-3

We recommend the department establish an internal control system to ensure:

A. Foster care payments are made on behalf of eligible clients in accordance with federal regulations.

B. The correct funding source is charged for services based on client eligibility.

Response #B12-3

Concur. We will review the specific cases listed by the auditor's to determine if additional information is available for processing client eligibility. If proper eligibility documentation is not available by June 30, 1994, the department will adjust it's IV-E quarterly report for the ineligible payments.

There are two initiatives under way within the department to address the client eligibility issue:

1. The new computerized Child and Adult Protective Services system (CAPS) authorized in the 1993 legislative session will be implemented July 1, 1995, This system will interface with the SRS TEAMS system to assist in the eligibility process. The CAPS System will also have "alerts " to notify staff when eligibility reviews or redetermination are due which will make the ongoing eligibility redetermination process more efficient; and

2. The hiring of five new Eligibility Examiner positions and a Program Officer in the state office which were authorized by the legislature to concentrate on refinancing and program eligibility initiatives. The positions will be responsible for gathering financial and non-financial information on families served by the department and to use the information to determine eligibility for all federal programs (IV-E,IV-A,and Medicaid) and to coordinate the application process for those programs and also for the Child Support Enforcement program. The positions have been filled and the initial training was conducted on March 16-18,1994. At least two additional training sessions are scheduled before June 30, 1994.

B12-4 Subrecipient Monitoring

The department subgrants federal financial assistance moneys it receives from the U.S. Department of Agriculture (CFDA #10.xxx) and the U.S. Department of Health and Human Services (CFDA #93.xxx). During fiscal years 1991-92 and 1992-93, the department awarded approximately $8 million and $10 million, respectively, of federal funds to subrecipients. It subgrants federal funds to 11 area agencies on aging to provide a variety of services and benefits to the elderly. It also subgrants federal moneys to other nonprofit organizations for a variety of foster care services provided to eligible children.

OMB Circular A-128 requires a state or local government that receives federal financial assistance and subgrants $25,000 or more in a fiscal year to a subrecipient to ensure the subrecipient meets certain requirements. One requirement is to determine whether state or local subrecipients have met applicable federal audit requirements. Another requirement is to determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations.

In our previous audit report, we recommended the department ensure subrecipients have audits completed which comply with federal regulations and establish a system to monitor subrecipients' compliance with applicable requirements. The department concurred with our recommendation and stated procedures had been implemented to address the concerns noted. During the

current audit, we noted the department includes a clause in its contracts requiring subrecipients to obtain an audit; however, the department has not established a system to ensure subrecipients receive an audit.

We noted the department compiled a list of subrecipients receiving federal assistance in fiscal year 1991-92; however, the department did not request audit reports not received from the subrecipients until May 1993. Of the 22 subrecipients listed, the department had received eight audit reports as of that date. As of November 1993, a list of fiscal year 1992-93 subrecipients had not been compiled. Department records also indicated four of the eleven area aging agencies have not received an audit in the last five to seven years.

In addition, some subrecipients may receive federal assistance under multiple contracts because of different types of services offered. The individual contracts may not exceed $25,000; however, the total the subrecipient receives could exceed $25,000. In this case an audit would be required of the subrecipient. The department has not established procedures to ensure subrecipients having multiple contracts with the department, which in the aggregate exceed $25,000, receive an audit.

Department personnel stated the audit section of the department was disbanded during fiscal year 1991-92. In addition, no one was assigned the subrecipient monitoring responsibility until the end of fiscal year 1992-93. Department officials are aware of the subrecipient monitoring requirement; however, the department has not established and implemented procedures to ensure compliance with the OMB Circular A-128.

Since the department has not established a system to monitor subrecipient's compliance with applicable requirements, we question approximately $12 million of federal funds awarded to subrecipients during fiscal years 1991-92 and 1992-93. These were charges to the U.S. Department of Health and Human Services aging program (CFDA #93.633, #93.635, and #93.668) and the child care development program (CFDA #93.037/93.575). We also question the portion of the costs noted on page B-85, Title IV-E Foster Care Eligibility, which are

subgranted by the department. The ultimate disposition of these questioned costs will be resolved by the federal grantor agency.

Recommendation #B12-4

We recommend the department establish and implement procedures to ensure:

A. All subrecipients receiving federal assistance in excess of $25,000 have audits completed in accordance with federal regulations.

B. Audit reports are received, reviewed, and comply with applicable federal regulations.

Response #B12-4

Concur. The department concurs and has implemented a procedure to address this issue. All sub-recipients with a contract amount of more than $25,000 was listed and reviewed by the Accounting Bureau Chief. If audits were not received, a letter was sent to the sub-recipients requesting an audit. All audits received were reviewed by the Accounting Bureau Chief and if necessary appropriate action was taken. A list has been complied for the contracts closing in FY93 and a letter will be mailed out to each sub-recipients before the end of March. As audit reports are received, the bureau chief reviews each audit for compliance. The staff person responsible for issuing contract now notifies the Accounting Bureau for each contract over $25,000.00 and the name is added to the list.

B12-5 Procedures for Recovering Foster Care Overpayments

Federal regulations require agencies to adequately safeguard assets, ensure that assets are used solely for authorized purposes, and establish procedures for the determination of cost allowability. The department is entitled to recover overpayments made to foster care providers. Overpayments occur when errors are made by the provider when requesting payment for services to clients. For example, two providers may request payment for the same client for the same time period or the provider requests payment in excess of the number of actual days of care provided.

Department rules state, "Recovery will be accomplished by the provider making payment of the overpayment within 30 days of notification of overpayment. If the provider fails to repay the overpayment within 30 days, the department may reduce future foster care maintenance payments until the overpayment is recovered in full." We reviewed the department's procedures for recovering foster care overpayments and noted the rules as established by the department are not followed. Department personnel stated when an overpayment is detected a letter is sent to the provider requesting reimbursement. If a response is not received the department sends a second request.

We noted this issue in the last two audits of the department. In the department's response to our May 20, 1991 interim audit communication, management stated the department would follow-up on all outstanding overpayments and recover them prior to fiscal year-end 1990-91. The department recovered all but one of the overpayments noted. During the current audit, we noted 18 instances, totalling approximately $13,000, where the department had not attempted to recover overpayments. The instances noted were for services provided to clients from October 1990 to June 1993. As of December 1993, the last documented attempt by the department to recover foster care overpayments was in July 1993.

Department personnel stated in April 1993 they were in the process of drafting a new policy to recover foster care overpayments. As of December 1993 the policy was still in draft form

and consistent procedures had not been implemented. Department personnel stated new procedures have not been implemented since it is not a high priority. For one of the instances noted, department personnel stated the funds had been recovered; however, the department could not provide documentation supporting the recovery.

Federal funds totalling $9,257 are included in the overpayments noted above. Since the overpayments are not allowable charges to the grant, this resulted in an overcharge to the Title IV-E federal grant from the Department of Human Health and Services (CFDA #93.658) of $9,257 during the audit period. We question the allowability of these charges.

Recommendation #B12-5

We recommend the department implement adequate procedures to recover foster care overpayments.

Response #B12-5

Concur. The implementation of the new CAPS system will greatly reduce the instances of overpayment occurring and will provide the department with an automated method of notifying providers of overpayment and automatically collecting the overpayment. In the interim, a draft policy regarding overpayments will be finalized by June 30, 1994 and, where feasible, all current overpayment will be collected. Federal funds involved in the current overpayment will be adjusted on the quarterly reports for June 30, 1994.

Administrative Cost Recovery

Federal regulations allow state agencies reimbursement for indirect costs necessary for the administration of federal financial assistance programs. Section 17-3-111, MCA, requires state agencies to recover indirect costs of administering federal assistance programs to the fullest extent possible. Recovery of indirect costs reduces the amount of state money required to support federal programs.

Indirect costs are, (a) costs incurred for common or joint purposes benefiting more than one project, award, contract, or cost objective and (b) costs not readily and directly assignable to cost objectives specifically benefited (i.e. central service costs). The department calculates an indirect cost rate which is reviewed and approved by the U.S. Department of Health and Human Services. An indirect cost rate is used to equitably distribute indirect costs to benefitting programs.

We noted the following instances where the department did not comply with federal regulations and state law. We noted errors which both under and over charge the federal government. The department should seek reimbursement for under charges and request the federal government apply these charges to resolve any overcharges noted.

B12-6 Allowability of Federal Cost Recoveries

Federal regulations outline costs which can be included in the indirect cost rate. We reviewed the composition of the department's indirect cost rate and noted the following concerns.

-- The department included equipment expenditures totalling $82,000 in calculating its indirect cost pool. OMB Circular A-87 states, "The cost of equipment and other capital expenditures should be recovered through use allowances or depreciation on buildings, capital improvements, and equipment. The total acquisition costs are not allowable as indirect costs during the period acquired." The department should include the portion of equipment allocable to each fiscal year in its indirect cost pool. We estimated the indirect cost rate used by the department was approximately one half of one percent too high. The equipment expenditures were not material during the department's base year; however, with the purchase of the department's new computer system there will be a significant increase in equipment expenditures during fiscal year 1993-94.

-- In accordance with state policy, the department included its portion of the statewide cost allocation plan (SWCAP) when calculating its indirect cost rate. In addition, the department direct charged the federal government for SWCAP charges in fiscal years 1991-92 and 1992-93. As a result, the direct charge for SWCAP is an unallowable cost, therefore, we question $30,960 and $108,262 of costs charged for fiscal years 1991-92 and 1992-93, respectively.

-- In the previous two audit reports and the current audit report, we noted concerns with the department's treatment of Mountain View School (MVS) and Pine Hills School (PHS) expenditures in its indirect cost rate calculation. In response to our recommendations, the department developed new procedures in fiscal year 1992-93 to include a portion of the central office costs in the MVS and PHS indirect cost rates. The procedures used by the department result in charging the federal government twice for the same expenditures, since the total central office costs are included in the department's indirect cost rate and a portion of those costs are included in MVS and PHS indirect cost rates. An overcharge to the federal government did not occur since MVS did not recover indirect costs in fiscal year 1992-93 and PHS did not use the new indirect cost rate.

-- The department calculates three separate indirect cost rates which include a central office rate and rates for MVS and PHS. The department could not provide documentation of why these rates were calculated separately. The procedures used by the department increase the likelihood costs could be included more than once when calculating its indirect cost rates. Also, additional work is required for department personnel to calculate three separate rates.

Recommendation #B12-6

We recommend the department include all costs allowed by federal regulations in its indirect cost rate.

Response #B12-6

Concur. The department has submitted a revised cost allocation plan (CAP) to the federal government for fiscal year 1993-94. Included in the revised CAP is a new calculation of the department's indirect cost rate. The new rate calculation will properly address the issues of equipment purchases and SWCAP as noted in the audit report. The department will work with the Office of Public Instruction regarding the indirect cost rates for Mountain View and Pine Hills Schools. These rate will be based on the new CAP and should properly reflect the indirect costs for the program.

Indirect Costs not Recovered to Fullest Extent

In the previous audit report, we recommended the department recover indirect costs to the fullest extent possible in accordance with state law. The department concurred with our recommendation and stated procedures were implemented to ensure indirect costs were recovered in accordance with state law. However, we noted the following instances where the department did not recover indirect costs to the fullest extent possible.

-- The department's central office calculates its indirect cost rate by determining the ratio of total indirect costs to personal service expenditures. We noted the department's central office excluded MVS and PHS expenditures in its total indirect cost base and included MVS and PHS personal service expenditures in its personal service base when calculating its indirect cost rate. Since this indirect cost rate is not applied against MVS and PHS personal service expenditures, these expenditures should not be included in the calculation. In addition, including MVS and PHS personal service expenditures in its personal service base results in a lower indirect cost rate. We recalculated the indirect cost rate by excluding MVS and PHS personal service expenditures in the personal service base and estimated the department could have recovered approximately $135,000 and $125,000 more in indirect costs for fiscal years 1991-92 and 1992-93, respectively.

-- State policy requires a separate indirect cost proposal for each fiscal year. The indirect cost rate used by the department in fiscal year 1991-92 and 1992-93 was calculated using fiscal year 1987-88 financial information. This rate was approved by the federal government in fiscal year 1989-90. The federal government allowed the department to continue using this rate through fiscal year 1992-93. The department's indirect cost pool increased by approximately $800,000 and $975,000 for fiscal years 1991-92 and 1992-93, respectively. In addition, total expenditures and personal service expenditures for the department increased from 1987-88 to fiscal year 1992-93 by approximately $26.6 and $5.2 million, respectively. Based on these increases, the indirect cost rate may have increased if the department had calculated new indirect cost rates for each fiscal year. Since the indirect cost pool increased and the base it is distributed on has changed, the indirect cost rate likely has changed. Since the department has not calculated an indirect cost rate since fiscal year 1989-90, it is not cost effective for us to

determine the amount of indirect costs over or under recovered.

Indirect Costs not Recovered by Mountain View School

The Office of Public Instruction awards the federal Chapter I Programs - Local Educational Agencies (CFDA #84.010) moneys to educational facilities. In fiscal year 1991-92 and 1992-93, MVS was awarded $34,173 and $37,479, respectively. Included in the fiscal year 1992-93 award were budgeted indirect cost recoveries of approximately $4,000. There were no indirect costs included in the budget for fiscal year 1991-92; however, this does not preclude MVS from recovering indirect costs. MVS did not recover indirect costs for fiscal years 1991-92 and 1992-93. The MVS indirect cost rate for fiscal year 1991-92 and 1992-93 was 11.6 percent. Based on the award amount, MVS could have recovered approximately $4,000 of indirect costs during each fiscal year. Had MVS recovered indirect costs, the General Fund would have received approximately $4,000, in each fiscal year, of federal revenue to offset the cost of administering the federal program.

The federal expenditures for the Chapter I programs would have been approximately $30,000 and $33,000 in fiscal year 1991-92 and 1992-93, respectively. Since MVS used the entire grant award for direct grant charges, the General Fund absorbed the cost of administering the federal program. This effectively expanded the program costs by approximately $4,000 in each fiscal year. Department personnel stated MVS did not recover indirect costs in either fiscal year and both MVS and PHS will not recover indirect costs during fiscal year 1993-94, since the award amount will only cover direct charges of the federal program.

B12-7 Summary

In the future, the department should:

1. Include in its indirect cost calculations only those expenditures to which the rate is applied.

2. Calculate a new indirect cost rate for each fiscal year in accordance with state policy.

3. Recover indirect costs for MVS and PHS rather than applying all federal funds to direct charges.

Recommendation #B12-7

We recommend the department recover indirect costs to the fullest extent possible in accordance with state law.

Response #B12-7
Concur. A new and revised cost allocation plan has been submitted to the federal government for fiscal years 1993-94. The federal government has reviewed it and has requested additional information from the department. The department expects to complete the response for the additional information by April 15, 1994. The new cost allocation plan will address the issues noted in the audit report. To help ensure that the new plan is in accordance with state law, the department will provide it to the Office of Legislative Auditor for their review and comments. Indirect rates will be adjusted yearly according to the new cost allocation plan.

B12-8 Accounting, Control, and Compliance Team to Design and Implement an Effective Control System

The Department of Family Services was created by Chapter 609, Laws of 1987. The legislature reorganized youth and aging services from the Department of Social and Rehabilitation Services and the Department of Corrections and Human Services (then Department of Institutions) into one department. The legislation passed in April 1987 and the department began operation on July 1, 1987. This gave the new department very little time to set up an effective system of management controls.

In our two previous financial compliance audit reports of the department, we discussed areas where the department could improve its management controls. The preceding report sections again indicate deficiencies in management controls related to training of staff, review of work performed, consistent application of control procedures, and maintaining communication to facilitate effective management. The budgetary, accounting, and

cash control procedures currently used by the department are inadequate and do not provide appropriate support to the department's client services programs. In addition, the department's procedures for ensuring compliance with state and federal laws and regulations are inadequate in significant instances.

We issued qualified opinions on the financial schedules in the department's two previous audit reports. Because the quality of the department's financial information has deteriorated even further than we found in previous audits, we issued an adverse opinion on the department's financial schedules for this audit period. An adverse opinion means the financial schedules do not present fairly the results of operations and changes in fund balances in conformity with state accounting policy.

The department's financial information is included in the general purpose financial statements (GPFS) prepared and issued by the Department of Administration's Accounting and Management Support Division. The Department of Administration adjusts the statewide accounting records for significant identified errors and recommended audit adjustments. Preparation of the GPFS requires additional time for these adjustments. Continued deterioration of the Department of Family Services financial information could affect the quality of the information in the state's GPFS. In addition, because of the significant errors made by the department, the statewide accounting records, which are used by the Legislature, the Budget Office, the Legislative Fiscal Analyst's Office, and others, do not reflect the true activity of the department.

The issues in this report which affect federal funds must be included in the state's Federal Single Audit report. The issues concerning compliance with federal laws and regulations which were included in our last audit of the department resulted in a qualification of our report on the state's compliance with federal regulations. The issues, which caused those single audit report qualifications, continue to exist and, along with over $24.6 million in questioned costs, are again included in this report. The federal government's resolution of the compliance issues and questioned costs could significantly affect the

programs offered by the department and the financial position of the state. These types of questioned costs could also impact the future receipt of federal funds to administer and provide client services under these federal programs.

Because of the serious problems faced by the department, management spends the majority of its time "putting out fires" and does not have the resources to develop and implement an effective management control system. We believe the Governor, as chief executive officer of the state, should assign a team of individuals from other state agencies to develop and ensure implementation of effective control and accountability systems at the department.

The management assistance team should be established as soon as possible to allow the department to begin fiscal year 1994-95 with redesigned systems and procedures relating to accounting and budget issues. The team should consist of individuals with expertise in state accounting policies, state and federal laws and regulations, management controls, budgeting, accounting, and client services programs similar to the department's. Examples of such agencies include the Office of Budget and Program Planning, the Department of Social and Rehabilitation Services, and the Department of Administration's State Personnel Division, Information Services Division, and Accounting Bureau. There are two primary benefits to forming a team of current state employees to develop and ensure implementation of management controls. One is that it could be done with no additional out of pocket cost to the state, and another is the individuals are familiar with laws and regulations related to state agencies, use of the Statewide Budgeting and Accounting System and needs of the state's budget officials.

The department is ultimately responsible for ensuring a system of management controls is implemented and followed. Therefore, the department should assign responsibility and accountability to an individual for coordinating work between the team and the department. In addition, this individual would be responsible for monitoring department compliance with the control systems and procedures developed by the team.

The development, implementation, and monitoring of a management control system will help:

1. Improve operations of the department.

2. Improve public perception of the department because of the increased operating efficiency.

3. Reduce the risk of lost federal funding.

Recommendation #B12-8

We recommend:

A. The Governor assign a team of individuals from other state agencies to develop and ensure implementation of an effective management control system at the department.

B. The department assign responsibility and accountability to an individual for coordinating work and monitoring compliance with control systems and procedures developed by the team.

Response #B12-8
Concur. The Governor, in cooperation with the Director of the Department of Family Services will assign a team of individuals from other executive branch agencies to design and implement an improved management control system for the Department of Family Services.

The Administrator of the Department's Management Support Services Division will be responsible for coordinating the work of this team and monitoring department compliance with the recommendations of the team. The Department Director will regularly review the progress of this effort and report to the Governor on the team's and department's activities.

Recommendations from this team will be developed within a schedule which will allow for their implementation within state fiscal year 1995.